Management's Responsibility for Financial Reporting

The accompanying audited consolidated financial statements ("financial statements") of SNC-Lavalin Group Inc. and all the information in this financial report are the responsibility of management and are approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances.

The significant accounting policies used are described in Note 2 to the financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the financial report and has ensured that it is consistent with that in the financial statements.

The Company's Chief Executive Officer and Chief Financial Officer are responsible for having established and maintaining disclosure controls and procedures and internal controls over financial reporting. A material weakness relating to the operating effectiveness of the Company's internal control over financial reporting was identified and it was determined that the Company's disclosure controls and procedures and internal control over financial reporting was not effective as at December 31, 2018, in accordance with the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has identified and, in certain instances, begun to implement a number of measures to address the material weakness and continues to strengthen the Company's internal control over financial reporting, as more fully described in the "Controls and Procedures" section of the 2018 Management's Discussion and Analysis. However, such measures may not be effective and the Company could face additional risks and/or unknown losses. Management excluded from its assessment the internal control over financial reporting at Linxon Pvt Ltd ("Linxon"), which was acquired on September 1, 2018, and whose revenues, net loss attributable to SNC-Lavalin shareholders and total assets constitute approximately 0.6%, nil% and 1.1% of respective balances in the consolidated financial statements as at and for the year ended December 31, 2018.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are independent directors. The Audit Committee meets periodically with management, as well as with the internal and independent auditors, to discuss disclosure controls and procedures, internal control over financial reporting, management information systems, accounting policies, auditing and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the financial statements, the Management's Discussion and Analysis and the independent auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditor, and reviews and approves the terms of its engagement as well as the fee, scope and timing of its services.

The financial statements have been audited, on behalf of the shareholders, by Deloitte LLP, the independent auditor, in accordance with Canadian generally accepted auditing standards. The independent auditor has full and free access to the Audit Committee and may meet with or without the presence of management.

NEIL BRUCE *(signed)*
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

SYLVAIN GIRARD *(signed)*
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

FEBRUARY 21, 2019
MONTREAL, CANADA

Independent Auditor's Report

To the Shareholders of SNC-Lavalin Group Inc.

Opinion

We have audited the consolidated financial statements of SNC-Lavalin Group Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Christian Jacques.

/s/ Deloitte LLP (1)

FEBRUARY 21, 2019
MONTREAL, QUEBEC

(1) CPA auditor, CA, public accountancy permit No. A124341

Consolidated Statements of Financial Position

(IN THOUSANDS OF CANADIAN DOLLARS)	Note	**DECEMBER 31 2018**	DECEMBER 31 2017
ASSETS			
Current assets			
Cash and cash equivalents	8	**$ 634,084**	$ 706,531
Restricted cash	8	**12,722**	20,932
Trade receivables	9A, 10B	**1,503,824**	1,445,859
Contract assets	9B, 10B	**1,751,068**	–
Contracts in progress	2B	**–**	1,329,861
Inventories	11	**104,205**	110,237
Other current financial assets	12	**247,291**	442,500
Other current non-financial assets	13	**404,819**	450,877
Assets of disposal group classified as held for sale and assets held for sale	40	**–**	107,994
Total current assets		**4,658,013**	4,614,791
Property and equipment	14	**482,619**	414,138
Capital investments accounted for by the equity method	5	**357,249**	296,664
Capital investments accounted for by the cost method	5	**10,663**	55,614
Goodwill	16	**5,369,723**	6,323,440
Intangible assets related to business combinations	17	**920,586**	1,089,837
Deferred income tax asset	31A	**652,155**	545,551
Non-current portion of receivables under service concession arrangements		**327,299**	273,340
Other non-current financial assets	18	**30,023**	44,321
Other non-current non-financial assets	19	**131,362**	104,810
Total assets		**$ 12,939,692**	$ 13,762,506
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables		**$ 2,352,944**	$ 2,176,947
Contract liabilities	10B	**972,959**	–
Downpayments on contracts	2B	**–**	149,388
Deferred revenues	2B	**–**	758,392
Other current financial liabilities	20	**298,701**	264,724
Other current non-financial liabilities	21	**424,861**	584,102
Current portion of provisions	23	**381,848**	174,534
Short-term debt and current portion of long-term debt:			
Recourse	22	**1,116,587**	318,757
Non-recourse	22	**60,168**	15,566
Liabilities of disposal group classified as held for sale	40	**–**	60,440
Total current liabilities		**5,608,068**	4,502,850
Long-term debt:			
Recourse	22	**1,171,433**	1,026,782
Limited recourse	22	**980,303**	1,475,177
Non-recourse	22	**339,537**	297,398
Other non-current financial liabilities		**53,505**	15,425
Non-current portion of provisions	23	**706,386**	791,060
Other non-current non-financial liabilities		**61,508**	53,367
Deferred income tax liability	31A	**363,087**	377,225
Total liabilities		**9,283,827**	8,539,284
Equity			
Share capital	24	**1,805,080**	1,801,733
Retained earnings		**1,346,624**	3,145,424
Other components of equity	25	**499,199**	277,974
Equity attributable to SNC-Lavalin shareholders		**3,650,903**	5,225,131
Non-controlling interests		**4,962**	(1,909)
Total equity		**3,655,865**	5,223,222
Total liabilities and equity		**$ 12,939,692**	$ 13,762,506

See accompanying notes to consolidated financial statements

Approved, on behalf of the Board of Directors, by:

NEIL BRUCE *(signed)*
DIRECTOR

BENITA M. WARMBOLD *(signed)*
DIRECTOR

SNC-LAVALIN GROUP INC.

Consolidated Statements of Changes in Equity

YEAR ENDED DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

2018

	EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS						
	SHARE CAPITAL						
	COMMON SHARES (IN THOUSANDS)	AMOUNT	RETAINED EARNINGS	OTHER COMPONENTS OF EQUITY (NOTE 25)	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at beginning of year	**175,488**	**$1,801,733**	**$ 3,145,424**	**$ 277,974**	**$ 5,225,131**	**$ (1,909)**	**$ 5,223,222**
Transitional adjustments on adoption of new accounting standards (Note 2B)	**–**	**–**	**(327,387)**	**5,448**	**(321,939)**	**369**	**(321,570)**
Adjusted balance at beginning of year	**175,488**	**1,801,733**	**2,818,037**	**283,422**	**4,903,192**	**(1,540)**	**4,901,652**
Net income (loss)	**–**	**–**	**(1,316,898)**	**–**	**(1,316,898)**	**603**	**(1,316,295)**
Other comprehensive income	**–**	**–**	**47,652**	**215,777**	**263,429**	**261**	**263,690**
Total comprehensive income (loss)	**–**	**–**	**(1,269,246)**	**215,777**	**(1,053,469)**	**864**	**(1,052,605)**
Dividends declared (Note 24F)	**–**	**–**	**(201,521)**	**–**	**(201,521)**	**–**	**(201,521)**
Shares issued under stock option plans (Note 24B)	**66**	**3,347**	**(646)**	**–**	**2,701**	**–**	**2,701**
Measurement of a loan from a non-controlling interest at its initial fair value (Notes 22C(x) and 30C)	**–**	**–**	**–**	**–**	**–**	**5,155**	**5,155**
Non-controlling interests arising on acquisition of Linxon (Note 6A)	**–**	**–**	**–**	**–**	**–**	**394**	**394**
Capital contributions by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**89**	**89**
Balance at end of year	**175,554**	**$ 1,805,080**	**$ 1,346,624**	**$ 499,199**	**$ 3,650,903**	**$ 4,962**	**$ 3,655,865**

YEAR ENDED DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

2017

	EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS						
	SHARE CAPITAL						
	COMMON SHARES (IN THOUSANDS)	AMOUNT	RETAINED EARNINGS	OTHER COMPONENTS OF EQUITY (NOTE 25)	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at beginning of year	150,357	$ 554,839	$ 2,959,366	$ 359,017	$ 3,873,222	$ 23,112	$ 3,896,334
Net income	–	–	382,035	–	382,035	1,116	383,151
Other comprehensive income (loss)	–	–	20,026	(81,043)	(61,017)	55	(60,962)
Total comprehensive income (loss)	–	–	402,061	(81,043)	321,018	1,171	322,189
Dividends declared (Note 24F)	–	–	(177,948)	–	(177,948)	–	(177,948)
Dividends declared by subsidiaries to non-controlling interests	–	–	–	–	–	(854)	(854)
Stock option compensation (Note 24B)	–	–	139	–	139	–	139
Shares issued under stock option plans (Note 24B)	251	12,162	(2,435)	–	9,727	–	9,727
Acquisition of non-controlling interest (Note 26)	–	–	(35,759)	–	(35,759)	(23,740)	(59,499)
Shares issued in exchange of subscription receipts (Note 30D)	24,880	1,234,732	–	–	1,234,732	–	1,234,732
Additional non-controlling interests arising on acquisition of Atkins (Note 6B)	–	–	–	–	–	(1,623)	(1,623)
Capital contributions by non-controlling interests	–	–	–	–	–	25	25
Balance at end of year	175,488	$ 1,801,733	$ 3,145,424	$ 277,974	$ 5,225,131	$ (1,909)	$ 5,223,222

See accompanying notes to consolidated financial statements

Consolidated Income Statements

YEARS ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS (LOSS) PER SHARE AND NUMBER OF SHARES)	Note	2018	2017 (1)
Revenues from:			
E&C		**$ 9,819,349**	$ 9,096,715
Capital investments accounted for by the consolidation or cost methods		**60,570**	53,184
Capital investments accounted for by the equity method		**204,087**	184,819
		10,084,006	9,334,718
Direct costs of activities		**9,521,611**	8,468,341
Total segment EBIT (2)		**562,395**	866,377
Corporate selling, general and administrative expenses	27	**121,294**	130,606
Impairment loss arising from expected credit losses	9A, 9B	**1,349**	–
Loss arising on financial assets (liabilities) at fair value through profit or loss		**7,427**	1,017
Net 2012 class action lawsuits settlement expense and related legal costs	35B	**89,443**	–
Restructuring costs	28	**68,591**	26,363
Acquisition-related costs and integration costs	6D	**54,878**	124,300
Amortization of intangible assets related to business combinations	17	**206,471**	138,892
Gain on disposals/partial disposals of Capital investments	5A	**(67,552)**	(42,078)
Loss (gain) from disposals of E&C businesses	7	**474**	(999)
Gain on disposal of the head office building	15	**–**	(115,101)
Impairment of goodwill	16	**1,240,415**	–
EBIT (2)		**(1,160,395)**	603,377
Financial expenses	29	**179,528**	123,094
Financial income and foreign exchange losses (gains)	29	**(12,083)**	(5,250)
Earnings (loss) before income taxes		**(1,327,840)**	485,533
Income taxes	31B	**(11,545)**	102,382
Net income (loss)		**$ (1,316,295)**	$ 383,151
Net income (loss) attributable to:			
SNC-Lavalin shareholders		**$ (1,316,898)**	$ 382,035
Non-controlling interests		**603**	1,116
Net income (loss)		**$ (1,316,295)**	$ 383,151
Earnings (loss) per share (in $)			
Basic		**$ (7.50)**	$ 2.35
Diluted		**$ (7.50)**	$ 2.34
Weighted average number of outstanding shares (in thousands)	24E		
Basic		**175,541**	162,910
Diluted		**175,541**	163,029

(1) Comparative figures have been revised (see Note 2C)

(2) Earnings before interest and taxes ("EBIT")

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2018		
	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL
Net income (loss)	**$ (1,316,898)**	**$ 603**	**$ (1,316,295)**
Other comprehensive income (loss):			
Exchange differences on translating foreign operations (Note 25)	**224,478**	**261**	**224,739**
Cash flow hedges (Note 25)	**(9,459)**	**–**	**(9,459)**
Share of other comprehensive loss of investments accounted for by the equity method (Note 25)	**(1,739)**	**–**	**(1,739)**
Income taxes (Note 25)	**2,497**	**–**	**2,497**
Total of items that will be reclassified subsequently to net income	**215,777**	**261**	**216,038**
Financial assets at fair value through other comprehensive income (Note 25)	**(1)**	**–**	**(1)**
Income taxes (Note 25)	**49**	**–**	**49**
Remeasurement on defined benefit plans (Note 25)	**57,932**	**–**	**57,932**
Income taxes (Note 25)	**(10,328)**	**–**	**(10,328)**
Total of items that will not be reclassified subsequently to net income	**47,652**	**–**	**47,652**
Total other comprehensive income	**263,429**	**261**	**263,690**
Total comprehensive income (loss)	**$ (1,053,469)**	**$ 864**	**$ (1,052,605)**

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2017		
	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL
Net income	$ 382,035	$ 1,116	$ 383,151
Other comprehensive income (loss):			
Exchange differences on translating foreign operations (Note 25)	(123,229)	55	(123,174)
Available-for-sale financial assets (Note 25)	12,234	–	12,234
Cash flow hedges (Note 25)	(8,553)	–	(8,553)
Share of other comprehensive income of investments accounted for by the equity method (Note 25)	57,678	–	57,678
Income taxes (Note 25)	(19,173)	–	(19,173)
Total of items that will be reclassified subsequently to net income	(81,043)	55	(80,988)
Remeasurement on defined benefit plans (Note 25)	21,844	–	21,844
Income taxes (Note 25)	(1,818)	–	(1,818)
Total of items that will not be reclassified subsequently to net income	20,026	–	20,026
Total other comprehensive income (loss)	(61,017)	55	(60,962)
Total comprehensive income	$ 321,018	$ 1,171	$ 322,189

See accompanying notes to consolidated financial statements

SNC-LAVALIN GROUP INC.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	Note	2018	2017
Operating activities			
Net income (loss)		**$ (1,316,295)**	$ 383,151
Income taxes paid		**(15,164)**	(23,874)
Interest paid from E&C		**(171,336)**	(115,364)
Interest paid from Capital investments		**(14,817)**	(21,626)
Other reconciling items	30A	**1,719,817**	182,950
		202,205	405,237
Net change in non-cash working capital items	30B	**(505,734)**	(641,093)
Net cash used for operating activities		**(303,529)**	(235,856)
Investing activities			
Acquisition of property and equipment		**(152,945)**	(124,816)
Proceeds from disposal of the head office building	15	**–**	173,288
Costs associated to a foreign exchange option	6D	**–**	(54,134)
Recovery associated to a foreign exchange option	6D	**–**	5,407
Net cash inflow (outflow) on acquisition of businesses	6A, 6C	**19,466**	(3,176,722)
Change in restricted cash position		**8,535**	31,385
Increase in receivables under service concession arrangements		**(130,460)**	(214,380)
Recovery of receivables under service concession arrangements		**69,825**	109,852
Decrease in short-term and long-term investments		**1,707**	79,294
Net cash inflow on disposal/partial disposal of a Capital investment accounted for by the equity method	5A	**92,214**	23,270
Net cash inflow on disposals of E&C businesses and of a Capital investment accounted for by the consolidation method	5A, 7	**–**	67,948
Net cash inflow on disposal of a Capital investment accounted for by the cost method	5A	**51,336**	–
Other		**(5,055)**	15,857
Net cash used for investing activities		**(45,377)**	(3,063,751)
Financing activities			
Increase in debt	30C	**2,704,293**	4,187,902
Repayment of debt and payment for debt issue costs	30C	**(2,248,558)**	(2,231,462)
Proceeds from exercise of stock options		**2,701**	9,727
Dividends paid to SNC-Lavalin shareholders	24F	**(201,521)**	(177,948)
Dividends paid by subsidiaries to non-controlling interests		**–**	(854)
Proceeds from shares issued in exchange of subscription receipts	30D	**–**	1,220,790
Amount paid for acquisition of non-controlling interest	26	**–**	(59,499)
Other	30C	**12,800**	4,757
Net cash generated from financing activities		**269,715**	2,953,413
Decrease from exchange differences on translating cash and cash equivalents		**6,705**	(2,720)
Net decrease in cash and cash equivalents		**(72,486)**	(348,914)
Cash and cash equivalents at beginning of year		**706,570**	1,055,484
Cash and cash equivalents at end of year		**$ 634,084**	$ 706,570
Presented on the statement of financial position as follows:			
Cash and cash equivalents		**$ 634,084**	$ 706,531
Assets of disposal group classified as held for sale and assets held for sale	40	**–**	39
		$ 634,084	$ 706,570

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS

SNC-Lavalin Group Inc. is incorporated under the Canada Business Corporations Act and has its registered office at 455 René-Lévesque Boulevard West, Montreal, Quebec, Canada H2Z 1Z3. SNC-Lavalin Group Inc. is a public company listed on the Toronto Stock Exchange in Canada. Reference to the "Company" or to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint arrangements, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements.

The Company provides consulting, design, engineering, construction as well as sustaining capital and operations and maintenance expertise, which together are referred to as "E&C", through its network of offices in over 50 countries, and is currently working on projects around the world. SNC-Lavalin also makes select investments that are complementary to its other activities, which are referred to as "Capital investments" or "Capital" in these financial statements.

The Company reports its revenues as follows:

- **E&C** includes contracts generating revenues related to consulting, design, engineering, construction, sustaining capital and Operations & Maintenance ("O&M") activities. Such activities include, among others, Engineering, Procurement and Construction ("EPC"), Engineering, Procurement and Construction Management ("EPCM"), and O&M contracts.
- **Capital investments** include SNC-Lavalin's investments in infrastructure concessions for public services or in certain other long-term assets.

In these consolidated financial statements ("financial statements"), activities from consulting and advisory, engineering and construction, sustaining capital and operations and maintenance expertise are collectively referred to as "from E&C" or "excluding Capital investments" to distinguish them from activities related to the Capital investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PREPARATION

The Company's financial statements have been prepared in accordance with **International Financial Reporting Standards** ("**IFRS**") issued and effective for the year ended December 31, 2018, and are presented in **Canadian dollars**. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

The accounting policies set out below were consistently applied to all periods presented, except for the following accounting policies: revenue recognition, financial instruments and share-based payments (see note 2B).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3.

The Company's financial statements have been prepared on the historical cost basis, with the exception of i) certain financial instruments, derivative financial instruments and liabilities for share unit plans, which are measured at fair value; ii) the defined benefit liabilities, which are measured as the net total of the present value of the defined benefit obligation minus the fair value of plan assets; iii) investments measured at fair value, which are held by SNC-Lavalin Infrastructure Partners LP, investment entity accounted for by the equity method and for which SNC-Lavalin elected to retain the fair value measurement applied by this investment entity; and iv) liability resulting from a contingent consideration arrangement in a business combination, which is measured at its fair value. Historical cost generally represents the fair value of consideration given in exchange for assets upon initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, *Share-based Payment*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

The Company's financial statements were authorized for issue by the Board of Directors on February 21, 2019.

B) NEW STANDARDS, AMENDMENTS AND AN INTERPRETATION ADOPTED IN 2018

The following standards, amendments to existing standards and interpretation have been adopted by the Company on January 1, 2018:

- IFRS 9, *Financial Instruments*, ("IFRS 9") covers mainly: i) the classification and measurement of financial assets and financial liabilities; ii) the new impairment model for the recognition of expected credit losses; and iii) the new hedge accounting model.
- IFRS 15, *Revenue from Contracts with Customers*, ("IFRS 15") outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes previous revenue recognition guidance including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related Interpretations.
- Amendments to IFRS 15 clarify how to: i) identify a performance obligation in a contract; ii) determine whether a company is a principal or an agent; and iii) determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition, the amendments to IFRS 15 include two additional transition reliefs.
- Amendments to IFRS 2, *Share-based Payment*, ("IFRS 2") provide requirements on the accounting for: i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and iii) a modification to the terms and conditions of a share-based payment that changes the classification of a transaction from cash-settled to equity-settled.
- Amendments to IAS 28, *Investments in Associates and Joint Ventures*, clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*, clarifies that: i) the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset and deferred income liability; and ii) if there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
- *Transfers of Investment Property* (Amendments to IAS 40, *Investment Property*) state that an entity shall transfer a property to, or from, investment property when, and only when, there is an evidence of a change in use. A change in use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

Except for IFRS 9, IFRS 15, amendments to IFRS 15 and IFRS 2, the amendments and interpretation listed above did not have a significant impact on the Company's financial statements.

ADOPTION OF IFRS 9

Transition

IFRS 9, *Financial Instruments*, replaced IAS 39, *Financial Instruments: Recognition and Measurement*, ("IAS 39") and was applied in accordance with transitional provisions of IFRS 9, which require an entity to apply IFRS 9 in accordance with IAS 8, *Accounting Policies, Change in Accounting Estimates and Errors*. The transitional provisions of IFRS 9 for classification and measurement of financial assets and financial liabilities oblige an entity to apply IFRS 9 requirements retrospectively.

As per the optional exemption in IFRS 9, the Company elected not to restate comparative figures.

IFRS 9 is not applied to financial assets and financial liabilities that have been derecognized at the date of initial application (i.e., the date when an entity first applies the requirements in IFRS 9), which is January 1, 2018 for SNC-Lavalin.

Main changes

In general, the main changes introduced by IFRS 9 relate to the classification and measurement of financial assets, the introduction of a new impairment model based on expected credit losses (rather than incurred losses as per IAS 39) and hedge accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification and measurement of financial assets and financial liabilities

The following table presents the carrying amount of financial assets held by SNC-Lavalin at December 31, 2017 by measurement category under IAS 39 and under IFRS 9:

		IAS 39		IFRS 9	
	NOTE	MEASUREMENT METHODOLOGY [1]	CARRYING AMOUNT	MEASUREMENT CATEGORY [1]	CARRYING AMOUNT
Cash and cash equivalents		FVTPL	$ 706,531	FVTPL	$ 706,531
Restricted cash		FVTPL	20,932	FVTPL	20,932
Trade receivables	A	Amortized cost	1,445,859	Amortized cost	1,442,815
Other current financial assets:					
Derivative financial instruments used for hedges		FVTPL	37,967	FVTPL	37,967
Financial assets at FVTPL		FVTPL	5,271	FVTPL	5,271
Other current financial assets		Amortized cost	399,262	Amortized cost	399,262
Capital investments accounted for by the cost method:					
At fair value	B	FVTOCI	52,708	FVTPL	52,708
At cost		Cost	2,350	FVTOCI	1,377
At amortized cost		Amortized cost	556	Amortized cost	556
Non-current portion of receivables under service concession arrangements		Amortized cost	273,340	Amortized cost	273,340
Other non-current financial assets:					
Derivative financial instruments		FVTPL	7,602	FVTPL	7,602
Derivative financial instruments used for hedges		FVTPL	14,552	FVTPL	14,552
At cost		Cost	1,783	FVTOCI	1,346
At amortized cost		Amortized cost	20,384	Amortized cost	20,384
Total			$ 2,989,097		$ 2,984,643

(1) FVTPL: Fair value through profit or loss
FVTOCI: Fair value through other comprehensive income

A. See section "*New impairment model*" below.

B. Relates to Astoria Project Partners II LLC, a Capital investment accounted for by the cost method. Under IFRS 9, since the contractual terms of this investment do not give rise, on specified dates, to cash flows that are solely payments of principal and interest and the Company did not make an irrevocable election to measure this investment at FVTOCI, the Company classified this investment in the FVTPL measurement category. As at January 1, 2018, the cumulative gain of $8.9 million net of taxes related to this available-for-sale financial asset included in the "Other components of equity" was reclassified to the Company's opening retained earnings (see Note 25).

The following table presents the carrying amount of financial liabilities held by SNC-Lavalin at December 31, 2017 by measurement category under IAS 39 and under IFRS 9:

	IAS 39		IFRS 9	
	MEASUREMENT METHODOLOGY [2]	CARRYING AMOUNT	MEASUREMENT CATEGORY [2]	CARRYING AMOUNT
Trade payables	Amortized cost	$ 2,176,947	Amortized cost	$ 2,176,947
Downpayments on contracts	Amortized cost	149,388	See [3]	See [3]
Other current financial liabilities:				
Derivative financial instruments used for hedges	FVTPL	20,775	FVTPL	20,775
Other current financial liabilities	Amortized cost	243,949	Amortized cost	243,949
Provisions	Amortized cost	52,519	Amortized cost	52,519
Short-term debt and long-term debt	Amortized cost	3,133,680	Amortized cost	3,133,680
Other non-current financial liabilities:				
Derivative financial instruments used for hedges	FVTPL	1,303	FVTPL	1,303
Other non-current financial liabilities	Amortized cost	14,122	Amortized cost	14,122
Total		$ 5,792,683		$ 5,643,295

(2) FVTPL: Fair value through profit or loss

(3) Presented as part of "Contract assets/Contract liabilities" in 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New impairment model

The IAS 39 incurred credit loss model was replaced by the IFRS 9 expected credit loss model. Expected credit losses are the present value of all cash shortfalls over the expected life of the financial instrument.

The new impairment model generally requires entities to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Although IFRS 9 does not require the loss allowance to be recognized at initial recognition of the new financial asset but rather at the next reporting date, the effect is the same as to recognizing a day one loss. This is different from IAS 39, under which no impairment was recognized unless and until a loss event occurs after the initial recognition of a financial asset.

Under IFRS 9, impairment is measured as either: i) 12-month expected credit losses; or ii) lifetime expected credit losses.

The Company applies the simplified approach to recognize lifetime expected credit losses for its trade receivables and contract assets that are in scope of IFRS 15 and that do not have a significant financing component. The Company applies the 12-month expected credit losses to its receivables under service concession arrangements that have a significant financing component.

The following table presents the reconciliation of the ending allowance as at December 31, 2017 to the opening loss allowance determined in accordance with IFRS 9 at the date of initial application for trade receivables and contract assets:

Allowance as at December 31, 2017	$	171,970
Additional loss allowance recognized on January 1, 2018		5,515
Impairment allowance under IFRS 9 as at January 1, 2018	**$**	**177,485**

As at January 1, 2018, the current portion of receivables under service concession arrangements amounted to $nil, which resulted in a $nil impairment allowance based on a 12-month expected credit loss model.

Hedge accounting

As permitted by IFRS 9, the Company continues to apply the requirements contained in IAS 39 for hedge accounting.

ADOPTION OF IFRS 15 AND AMENDMENTS TO IFRS 15

IFRS 15 introduces a 5-step model to revenue recognition for contracts with customers. Such model requires an entity to: 1) identify the contract with the customer; 2) identify the performance obligations related to that contract; 3) determine the transaction price of the contract; 4) allocate such transaction price between the performance obligations; and 5) recognize revenue when (or as) performance obligations are satisfied. In addition to recognition and measurement, IFRS 15 also provides new requirements on presentation and disclosures.

Transition

The Company elected to adopt IFRS 15 using the modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application (January 1, 2018), without restatement of comparative figures.

IFRS 15 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients upon adoption of IFRS 15 on January 1, 2018:

PRACTICAL EXPEDIENT	DESCRIPTION
Completed contract	The Company applied IFRS 15 retrospectively only to contracts that are not completed contracts as at January 1, 2018.
Contract modifications	The Company did not separately evaluate the effects of each contract modification prior to January 1, 2018. Instead, it reflected the aggregate effect of all modifications that occurred prior to January 1, 2018 when: i) identifying the satisfied and unsatisfied performance obligations; ii) determining the transaction price; and iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change orders and claims

Change orders and claims, referred to as contract modifications, were previously recognized as per guidance provided in IAS 11, *Construction Contracts*, ("IAS 11"). Under such guidance, revenue could be recognized on contract modifications only when certain conditions were met, including the fact that it was **probable** the customer will approve the modification and the amount of revenue arising from such contract modifications. IFRS 15 also provides guidance on the recognition of revenue from contract modifications, but such guidance is based, among other factors, on the fact that the contract modification is approved and it is **highly probable** that a significant reversal in the amount of cumulative revenue recognized on such contract modifications will not occur when the uncertainty is subsequently resolved. Given the higher level of probability to be applied under IFRS 15, some revenue recognized under IAS 11 was reversed as at January 1, 2018, resulting in an approximate $210 million adjustment to equity on that date. Revenue from these contract modifications will be recognized when, and if, IFRS 15 guidance is met.

Measure of anticipated revenues and determination of progress

Under IFRS 15, the amount of anticipated revenue used when determining the amount of revenue to be recognized must be based on contracts with legally enforceable rights and obligations. As a result, certain contracts under which the Company anticipates some volume of work based on discussions with the customer or other indicators, but for which formal purchase orders or work orders need to be issued by the customer in order to formalize the exact scope of work, were assessed to determine when the anticipated revenue should be included in the transaction price, resulting in a decrease in the Company's cumulative revenues recognized on these contracts as at January 1, 2018 (approximately $105 million adjustment to equity on that date).

Furthermore, for projects having revenue recognized based on the stage of completion method using a cost input method, the Company was accounting for its assurance-type warranty costs the same way as other project costs. As a result, the Company did not carry a provision for such expected warranty costs. Rather, it recognized such costs as they were incurred, which in turn was included in the measure of progress of the project based on the stage of completion method and, as such, generated revenue.

Under IFRS 15, these assurance-type warranty costs are to be excluded from the measure of progress of projects for which revenue is recognized over time using a cost input method. Such costs will rather be recognized as a provision in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, based on the advancement of the projects, and the provision recognized will then either be used when costs are incurred or reversed if it is no longer needed.

In addition to these warranty-related costs, the Company reviewed its other project costs on contracts for which revenue is recognized over time to determine if each of these costs is contributing to the transfer of control of the goods or services to the customer. Such review resulted in an insignificant impact on the Company's equity as at January 1, 2018.

Presentation

In accordance with IFRS 15, the Company changed its presentation of contract-related assets and liabilities. As such, the Company now presents its contract balances, on a contract-by-contract basis, in a net contract asset or liability position, separately from its accounts receivable. Contract assets and accounts receivable are both rights to consideration in exchange for goods or services that the Company has transferred to a customer, however the classification depends on whether such right is only conditional on the passage of time (accounts receivable) or if it is also conditional on something else (contract assets), such as the satisfaction of further performance obligations under the contract. A contract liability is the cumulative amount received and contractually receivable by the Company that exceeds the right to consideration resulting from the Company's performance under a given contract.

The Company's contract assets and contract liabilities include mainly the balances that were presented as "Contracts in progress", "Retentions on client contracts" included in "Other current financial assets", "Deferred revenues" and "Downpayments on contracts" in the Company's consolidated statement of financial position until December 31, 2017.

Procedures and controls

The Company has updated and implemented revised procedures and controls in order to meet the requirements of IFRS 15, notably the recording of the transition adjustment, the change in presentation, as well as additional disclosures provided in the Company's 2018 audited annual consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2018 impacts of adopting IFRS 15

Since the Company elected to adopt IFRS 15 using the modified retrospective method, the following tables summarize the impacts of adopting IFRS 15 on the Company's consolidated statement of financial position as at December 31, 2018, its consolidated income statement and its consolidated statement of comprehensive income for the year ended December 31, 2018 for each of the line items affected. There was no material impact on the Company's consolidated statement of cash flows for the year ended December 31, 2018.

Impact on the consolidated statement of financial position

DECEMBER 31, 2018 (IN THOUSANDS OF CANADIAN DOLLARS)	Note	AS REPORTED	ADJUSTMENTS	AMOUNTS WITHOUT ADOPTION OF IFRS 15
ASSETS				
Contract assets	(a)	$ 1,751,068	$ (1,751,068)	$ –
Contracts in progress	(a)	–	1,874,215	1,874,215
Other current financial assets	(a)	247,291	232,242	479,533
Deferred income tax asset	(b)	652,155	(28,797)	623,358
Others		10,289,178	–	10,289,178
Total assets		**$ 12,939,692**	**$ 326,592**	**$ 13,266,284**
LIABILITIES				
Contract liabilities	(a)	$ 972,959	$ (972,959)	$ –
Downpayments on contracts	(a)	–	340,255	340,255
Deferred revenues	(a)	–	817,375	817,375
Provisions	(a)	1,088,234	(733)	1,087,501
Deferred income tax liability	(b)	363,087	(209)	362,878
Others		6,859,547	–	6,859,547
Total liabilities		**9,283,827**	**183,729**	**9,467,556**
EQUITY				
Share capital		1,805,080	–	1,805,080
Retained earnings		1,346,624	144,726	1,491,350
Other components of equity		499,199	(1,863)	497,336
Non-controlling interests		4,962	–	4,962
Total equity		**3,655,865**	**142,863**	**3,798,728**
Total liabilities and equity		**$ 12,939,692**	**$ 326,592**	**$ 13,266,284**

Impact on the consolidated income statement and the consolidated statement of other comprehensive income

YEAR ENDED DECEMBER 31, 2018 (IN THOUSANDS OF CANADIAN DOLLARS)	Note	AS REPORTED	ADJUSTMENTS	AMOUNTS WITHOUT ADOPTION OF IFRS 15
Revenues	(c)	$ 10,084,006	$ (204,289)	$ 9,879,717
Direct cost of activities	(d)	(9,521,611)	(6,021)	(9,527,632)
Impairment loss arising from expected credit losses	(e)	(1,349)	–	(1,349)
Income taxes	(b)	11,545	21,210	32,755
Impairment of goodwill		(1,240,415)	–	(1,240,415)
Others		(648,471)	–	(648,471)
Net loss		**$ (1,316,295)**	**$ (189,100)**	**$ (1,505,395)**
Total comprehensive loss		**$ (1,052,605)**	**$ (176,641)**	**$ (1,229,246)**

a. Under IAS 11, contract-related assets and liabilities were accounted for in separate accounts on the Company's statement of financial position, namely contracts in progress, downpayments on contracts and certain other balances included in other current financial assets and other current financial liabilities. As such, no amount would have been reported as contract assets and contract liabilities under IAS 11.

b. The deferred income tax impact of the changes between IFRS 15 and IAS 11 is presented as a change in income tax expense, as well as a change in either deferred income tax asset or deferred income tax liabilities, as applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Revenues reported under IAS 11 would have been different from revenues reported under IFRS 15 based on mainly three differences:

- Revenue from certain unsigned change orders and claims recognized under IAS 11 was reversed as at January 1, 2018 given the higher level of probability required by IFRS 15 that such revenue will be realized by the Company once the related uncertainty is subsequently resolved. While the Company recognized a portion of such revenue in 2018 under IFRS 15 upon reaching the required level of probability, revenue from some other change orders and claims was not recognized under IFRS 15 in 2018 because it was not meeting the adequate level of probability, but could have been recognized under IAS 11.
- Revenue from certain contracts recognized under IAS 11 was reversed as at January 1, 2018 due to the need to obtain formal purchase orders or work orders prior to including anticipated revenue in the amount of transaction price under IFRS 15. While the Company recognized a portion of such revenue in 2018 after obtaining formal purchase orders or work orders, such revenue would not have been recognized again in 2018 under IAS 11.
- Revenue being recognized over time has been adjusted to consider the way revenue was determined when using the stage of completion method under IAS 11, which was different than under IFRS 15 for certain items, such as for assurance-type warranty costs and certain other project costs that are not contributing to the transfer of control of the goods or services to the customer.

d. The change in direct costs of activities reflects mainly the treatment of assurance-type warranty costs on projects for which revenue is recognized over time. Such costs are recognized as a provision under IFRS 15, while they were recognized as incurred under IAS 11.

e. The amount of impairment loss arising from expected credit losses is derived, in part, from the unreserved balance of trade receivables and contract assets. While the amount of trade receivables remained the same under IFRS 15 and IAS 11, the amount of contract asset did not exist under IAS 11 and, as such, the calculations was based on the amount of contracts in progress and certain other current financial assets for the purpose of comparing IFRS 15 and IAS 11.

ADOPTION OF AMENDMENTS TO IFRS 2

The impact from the adoption of amendments to IFRS 2 relate to share-based payment transactions that are unvested at the date that an entity first applies the amendments, i.e., January 1, 2018 for SNC-Lavalin, and to share-based payment transactions with a grant date on or after that date. As per the amendments to IFRS 2, vesting conditions, other than market conditions, are to be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. The amount of the liability has to be based on the best available estimate of the number of awards that are expected to vest.

As at January 1, 2018, the Company estimated the number of its unvested share units that will eventually vest and recognized the effect of the remeasurement in the opening retained earnings of $4.2 million ($3.0 million net of taxes), with a corresponding decrease to the share unit plans' liabilities.

The Company adopted the amendments to IFRS 2 in accordance with its transitional provisions and did not restate comparative figures.

IMPACT FROM THE ADOPTION OF IFRS 9, IFRS 15 AND AMENDMENTS TO IFRS 2

The following table presents the impact of adopting IFRS 9, IFRS 15 and amendments to IFRS 2 on the Company's equity as at January 1, 2018:

	SHARE CAPITAL	RETAINED EARNINGS	OTHER COMPONENTS OF EQUITY	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance as at December 31, 2017	$ 1,801,733	$ 3,145,424	$ 277,974	$ (1,909)	$ 5,223,222
Transitional adjustments on adoption of new accounting standards:					
Adoption of IFRS 9	–	3,396	(8,874)	–	(5,478)
Adoption of IFRS 15	–	(333,826)	14,322	369	(319,135)
Adoption of amendments to IFRS 2	–	3,043	–	–	3,043
	–	(327,387)	5,448	369	(321,570)
Balance as at January 1, 2018	**$ 1,801,733**	**$ 2,818,037**	**$ 283,422**	**$ (1,540)**	**$ 4,901,652**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C) CHANGES IN ACCOUNTING POLICIES AND IN PRESENTATION

Segment disclosures and income statement

Effective January 1, 2018, the Company modified the presentation of its income statement by changing its definition of "direct costs of activities", which now refers to all costs, including allocation of certain costs, associated to its revenue generating activities and front-end support, whereby in the past it was substantially limited to its project-related costs. As such, this change resulted in a reclassification of $1,028.1 million from "Selling, general and administrative expenses" to "Direct cost of activities" in the year ended December 31, 2017.

At the same time, the Company changed the definition of segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, segment EBIT now includes an additional allocation of certain corporate selling, general and administrative expenses, whereas in the past it only included corporate selling, general and administrative expenses that were directly related to projects or segments. The additional costs that are being allocated to the segment EBIT are mainly related to information technology and to employee benefits and incentives. These are allocated on a per employee basis for the information technology costs and on an employee compensation basis for the benefits and incentives. The Company believes that such allocation improves the measure of profitability of its reportable segments by better reflecting the overall costs incurred to support its operations. In addition, the Company introduced the measure of Total segment EBIT, which represents the sum of all segment EBIT and non-controlling interests before income taxes. Such measure of Total segment EBIT is now aligned with the presentation adopted in the Company's statement of income and corresponds to the Company's revenues less direct costs of activities.

Furthermore, the Company initiated a strategic realignment of its organizational structure aimed at integrating the Atkins business, more effectively serving its clients worldwide and strengthening its position for longer-term growth. This realignment, which became effective January 1, 2018, resulted in a change to the Company's reportable segments, which are now: i) Mining & Metallurgy; ii) Oil & Gas; iii) Nuclear; iv) Clean Power; v) Thermal Power; vi) Infrastructure; vii) Engineering, Design and Project Management ("EDPM"); and viii) Capital. See Note 4 for description of each of the segments.

In addition, concurrent to the adoption of IFRS 9, *Financial Instruments*, on January 1, 2018, the Company presents "Gain (loss) arising on financial assets (liabilities) at fair value through profit or loss" separately in its income statement. This change resulted in a reclassification of a loss of $1.0 million for the year ended December 31, 2017 related to derivative financial instruments used by the Company to limit its exposure to the variability of its share unit plans' liabilities from "Corporate selling, general and administrative expenses" to "Gain (loss) arising on financial assets at fair value through profit or loss".

These changes were made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of 2017 figures.

D) STANDARD, INTERPRETATION AND AMENDMENTS ISSUED TO BE ADOPTED AT A LATER DATE

The following standard has been issued and will be applied by the Company for its annual periods beginning on January 1, 2019 and thereafter:

- IFRS 16, *Leases*, ("IFRS 16") provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede IAS 17, *Leases*, ("IAS 17") and its associated interpretative guidance.

The following amendments to standards and interpretation have been issued and will be applied by the Company for its annual periods beginning on January 1, 2019 and thereafter:

- *Prepayment Features with Negative Compensation* (Amendments to IFRS 9, *Financial Instruments*) allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the solely payments of principal and interest condition if specified criteria are met.

- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28, *Investments in Associates and Joint Ventures*) clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

- Amendments to IFRS 3, *Business Combinations*, state that an entity shall remeasure its previously held interest in a joint operation when it obtains control of the business.
- Amendments to IFRS 11, *Joint Arrangements*, state that an entity shall not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- Amendments to IAS 12, *Income Taxes*, clarify that all income tax consequences of dividends (i.e., distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- Amendments to IAS 23, *Borrowing Costs*, clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.
- *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19, *Employee Benefits*) specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.
- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, sets out how to determine the accounting for tax positions when there is uncertainty over the income tax treatment. The interpretation requires an entity to: i) determine whether uncertain tax positions are assessed separately or as a group; and ii) assess whether it is probable that a tax authority will accept an uncertain tax treatment as filed, or proposed to be filed, by an entity in its tax filings.

The following amendments to standards have been issued and are applicable to the Company for its annual periods beginning on January 1, 2020 and thereafter, with an earlier application permitted:

- Amendments to IFRS 3, *Business Combinations*, improve the definition of a business. The amendments help entities determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.
- *Definition of Material* (Amendments to IAS 1, *Presentation of Financial Statements*, ["IAS 1"] and to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ["IAS 8"]) is intended to make the definition of material in IAS 1 easier to understand and is not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.

The Company is currently evaluating the impact of adopting this standard, these amendments and this interpretation on its financial statements.

Considerations for the Implementation of IFRS 16

IFRS 16 introduces a single lease accounting model for lessees which will result in the recognition of a right-of-use asset, as well as a lease liability reflecting the present value of future lease payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expenses that were recognized under IAS 17.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 can be applied using one of the following two methods: i) retrospectively to each prior reporting period presented applying IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; or ii) retrospectively with the cumulative effect of initially applying IFRS 16 recognized in retained earnings at the date of initial application (the "Modified Retrospective Method"). The Company has elected to apply IFRS 16 using the Modified Retrospective Method. Under this method, the lessee can elect, on a lease-by-lease basis, to measure the right-of-use asset based on two methodologies. The first methodology consists of recognizing a right-of-use asset at a value equal to the lease liability, adjusted for the amount of prepaid or accrued lease payments, at the date of transition. The second methodology consists of measuring the right-of-use asset at the date of transition as if IFRS 16 had been applied since the commencement date of the lease, but discounted using a rate at the date of initial application. In any event, the cumulative effect of initially applying IFRS 16, if any, will be recognized in retained earnings at January 1, 2019.

The implementation of IFRS 16 allows for certain optional practical expedients and optional exemptions at the date of initial application, such as the main options summarized in the following table:

OPTIONAL PRACTICAL EXPEDIENT OR EXEMPTION	BASIS FOR APPLICATION	COMPANY'S ELECTION AT THE DATE OF INITIAL APPLICATION
No reassessment on whether a contract is, or contains, a lease, based on current standards	All leases	Will use such practical expedient
Use of the same discount rate for a portfolio of leases with similar characteristics	By portfolio of leases	Will use such practical expedient when possible
Use of onerous lease provision instead of impairment review on the right-of-use asset	Lease by lease	Will apply to all leases when possible
Exemption from recognizing a right-of-use asset and a lease liability when the lease term ends within 12 months of the date of initial application	Lease by lease	Will apply to most leases of equipment Will not apply to most of office real estate leases
Exemption from recognizing a right-of-use asset and a lease liability when the underlying asset is of low value	Lease by lease	Will not recognize a right-of-use asset and a lease liability when the underlying asset is of low value
Exemption from recognizing a right-of-use asset and a lease liability when the lease is short term	By class of underlying asset	Will apply to all leases, except for office real estate leases
Exclude initial direct costs from the measurement of the right-of-use asset on transition, when such asset is not deemed to be equal to the lease liability at the date of initial application	Lease by lease	Will apply to all leases for which the right-of-use asset is not deemed equal to the lease liability at the date of initial application
Use of hindsight for lease terms for the measurement of the right-of-use asset on transition, when such asset is not deemed to be equal to the lease liability at the date of initial application	Lease by lease	Will apply to all leases for which the right-of-use asset is not deemed equal to the lease liability at the date of initial application

The adoption of IFRS 16 requires the exercise of judgment and the use of assumptions, such as determining if an option to renew or terminate a lease is reasonably certain, determining the discount rate or determining if a lease modification should be accounted as a new lease or not.

The Company expects that the adoption of IFRS 16 will result in a material increase to its assets and liabilities through the recognition of right-of-use assets and lease liabilities. At this stage of the implementation of IFRS 16, the Company is still quantifying the impact on its assets and estimates that the increase of liabilities should represent approximately $0.6 billion, excluding any potential tax impact. Such impact on the Company's liabilities is, however, subject to change by the time implementation is completed.

While the quantification of the impact is still to be finalized, the implementation of changes to certain processes and certain internal controls, as well as the implementation of a new lease management and accounting system, are substantially completed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E) BASIS OF CONSOLIDATION

In accordance with IFRS, SNC-Lavalin's interests in other entities subject to control, joint control or significant influence are accounted for as follows:

TYPE OF INTEREST	TYPE OF INFLUENCE	ACCOUNTING METHOD
Subsidiary	Control	Consolidation method
Joint venture	Joint control	Equity method
Joint operation	Joint control	SNC-Lavalin's share of interest
Associate	Significant influence	Equity method
Investment	Non-significant influence	Cost method

A subsidiary that is not wholly-owned by SNC-Lavalin results in non-controlling interests that are presented separately on the consolidated statement of financial position, while the portions of net income and of other comprehensive income attributable to such non-controlling interests are also shown separately on the consolidated income statement and on the consolidated statement of comprehensive income, respectively.

When necessary, adjustments are made to the financial statements of subsidiaries, joint arrangements and associates to bring their accounting policies in line with those used by the Company.

Business acquisitions

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company, if any, in exchange for control of the acquiree. Provisional fair values allocated at a reporting date are finalized within twelve months of the acquisition date.

At the date of acquisition, the identifiable assets acquired and the liabilities assumed are recognized at fair value, except that:

- deferred income tax asset or liability, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment*, at the date of acquisition; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with this standard.

Acquisition-related costs are expensed in the periods in which these costs are incurred and the services are received.

The results of businesses acquired are included in the consolidated financial statements from the date on which control is obtained.

F) FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The individual financial statements of each entity within the Company are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity within the Company are expressed in Canadian dollars, which is the presentation currency of the Company for its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency transactions and balances

For the purpose of preparing financial statements, Canadian and foreign operations apply the following procedure on transactions and balances in currencies other than their functional currency: 1) monetary items are translated in their functional currency using the exchange rate in effect at the period end rate; 2) non-monetary items are translated in their functional currency using the historical exchange rate if they are measured at cost, or using the exchange rate at the measurement date if they are measured at fair value; and 3) revenues and expenses are translated in their functional currency using the appropriate average exchange rate of the period. Any resulting gains or losses are recognized in net income and, if hedge accounting is applied, offsetting losses or gains from the hedging items are also recognized in net income.

As a result of applying the procedures described above, Canadian and foreign operations produce financial statements presented in their functional currency.

Translation of financial statements of foreign operations

For the purpose of presenting consolidated financial statements in Canadian dollars, the assets and liabilities of the Company's foreign operations that have a functional currency other than Canadian dollars are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period, while revenues and expenses items are translated at the appropriate average exchange rate for the period. Exchange differences arising on consolidation, if any, are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of foreign operations.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the period end rate.

G) REVENUE RECOGNITION

POLICY APPLICABLE FROM JANUARY 1, 2018

REVENUES FROM E&C

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular performance obligation to the customer.

In most cases, for performance obligations satisfied over time, the Company recognizes revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligations. Under this method, costs that do not contribute to the performance of the Company in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. For certain contracts, notably certain cost-plus contracts or unit-rate contracts, the Company recognizes revenue based on its right to consideration when such amount corresponds directly with the value to the customer of the entity's performance completed to date. In certain other situations, the Company might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

The amount of revenue recognized by the Company is based on the transaction price allocated to each performance obligation. Such transaction price corresponds to the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price includes, among other things and when applicable, an estimate of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is usually derived from incentives, performance bonuses, and penalties, and could include claims and unpriced change orders. When a contract includes a significant financing component, the value of such component is excluded from the transaction price and is recognized separately as finance income or expense, as applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SNC-Lavalin may enter into contractual arrangements with a client to deliver services on one project which span more than one performance obligation, such as Engineering, Procurement and Construction ("EPC") or Engineering, Procurement, and Construction and Management ("EPCM"), Operations and Maintenance ("O&M") and/or Capital investments. When entering into such arrangements, the Company allocates the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone selling price and recognized according to the respective revenue recognition methods described above.

The Company accounts for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects the Company's stand-alone selling price of the additional promised good or services. When the contract modification is not accounted for as a separate contract, the Company recognizes an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

The Company recognizes assurance-type warranty costs as a provision in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, based on the advancement of the projects, and the provision recognized is then either used when costs are incurred or reversed if it is no longer needed.

In all cases, the value of construction activities, material and equipment purchased by SNC-Lavalin, when acting as purchasing agent for a client, is not recorded as revenue.

The Company may apply its revenue recognition policy to a portfolio of contracts or performance obligations with similar characteristics if the effect on its financial statements of applying such policy to the portfolio is not reasonably expected to differ materially from applying its policy to the individual contracts or performance obligations within that portfolio.

The Company presents its contract balances, on a contract-by-contract basis, in a net contract asset or liability position, separately from its trade receivables. Contract assets and trade receivables are both rights to consideration in exchange for goods or services that the Company has transferred to a customer, however the classification depends on whether such right is only conditional on the passage of time (trade receivables) or if it is also conditional on something else (contract assets), such as the satisfaction of further performance obligations under the contract. A contract liability is the cumulative amount received and contractually receivable by the Company that exceeds the right to consideration resulting from the Company's performance under a given contract.

POLICY APPLICABLE BEFORE JANUARY 1, 2018

REVENUES FROM E&C

Revenues from E&C were recognized based on the nature of the contract, which were mainly as follows:

- Revenues from **cost-plus reimbursable contracts** (usually providing for the reimbursement of costs related to time and material, plus an applicable margin) were recognized as costs were incurred, and included applicable margin earned as services were provided. Revenues from **fixed-price contracts** and **unit-rate contracts** were recognized on the stage of completion basis over the duration of the contract, which consisted of recognizing revenue on a given contract proportionately with its stage of completion at any given time. Revenues from **mixed contracts** (providing for a mix of fixed-price and cost-plus reimbursable) were also recognized based on the stage of completion method. The stage of completion was determined by dividing the cumulative costs incurred as at the period end date by the sum of incurred costs and anticipated costs for completing a contract.
- The fixed-fee revenue portion from **cost reimbursable with fixed-fee contracts** for O&M activity was recognized on a straight-line basis over the term of the contract, while the revenues from the cost-reimbursable portion were recognized as costs were incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For contracts using the stage of completion method to recognize revenue, the cumulative effect of changes to anticipated costs and anticipated revenues for completing a contract were recognized in the period in which the revisions were identified. SNC-Lavalin had numerous contracts that were in various stages of completion. Estimates were required to determine the appropriate anticipated costs and revenues. Anticipated revenues on contracts included future revenues from unapproved change orders, if such additional revenues could be reliably estimated and it was considered probable that they will be recovered. Also, anticipated revenues on contracts included future revenues from claims, if negotiations have reached an advanced stage such that it was probable that the customer will accept the claim and the amount that it was probable will be accepted by the customer could be measured reliably. Anticipated revenues on contracts also included estimated volume of work, notably for unit-rate contracts. Revenues from performance incentives were recognized when specific indicators have been met and collection was reasonably assured.

In the event that the total anticipated costs exceeded the total anticipated revenues on a contract, such loss was recognized in its entirety in the period it became known.

In all cases, the value of construction activities, material and equipment purchased by SNC-Lavalin, when acting as purchasing agent for a client, was not recorded as revenue.

POLICY APPLICABLE BEFORE AND AFTER JANUARY 1, 2018

REVENUES FROM CAPITAL INVESTMENTS

Revenues from **Capital investments** include the following:

ACCOUNTING METHODS FOR THE COMPANY'S CAPITAL INVESTMENTS	REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT
Consolidation	**Revenues** that are recognized and reported by the Capital investments
Equity method	SNC-Lavalin's **share of net results** of the Capital investments or **dividends** from its Capital investments for which the carrying amount is $nil but would otherwise be negative based on historical financial results and dividends if SNC-Lavalin had an obligation to fund the investment. Dividends are recognized when the Company's right to receive payment has been established
Cost method	**Dividends and distributions** from the Capital investments

H) FINANCIAL INSTRUMENTS

POLICY APPLICABLE FROM JANUARY 1, 2018

FINANCIAL ASSETS AND LIABILITIES

Unless specifically covered by another accounting policy, the measurement of financial assets and financial liabilities is based on their classification, which is one of the following for SNC-Lavalin:

CATEGORY – SUBSEQUENTLY MEASURED AT	APPLICABLE TO	INITIAL MEASUREMENT	SUBSEQUENT MEASUREMENT	RECOGNITION OF INCOME/EXPENSE AND GAINS/LOSSES ON REMEASUREMENT, IF ANY
Fair value through profit or loss ("FVTPL")	Financial assets and financial liabilities	Fair value	Fair value	All recognized in net income
Fair value through other comprehensive income ("FVTOCI")	Financial assets	Fair value including transaction costs	Fair value derived from published bid price quotations for listed securities. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.	Investment income, which includes interest, dividends and distributions, is recognized in net income. For equity instruments, gains (losses) from revaluation are recognized in other comprehensive income with no reclassification to net income on disposal of such assets.
Amortized cost	Financial assets and financial liabilities	Fair value including transaction costs	Amortized cost using the effective interest method	All recognized in net income

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets subsequently measured at amortized cost

For "Trade receivables" and "Contract assets", the amount of the loss allowance recognized is the amount equal to lifetime expected credit losses that result from all possible default events over the expected life of a financial instrument.

For "Non-current portion of receivables under service concession arrangements", if the credit risk has not increased significantly since initial recognition, the amount of the loss allowance recognized is the amount equal to 12-month expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Write-off

The gross carrying amount of a financial asset is reduced when there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

POLICY APPLICABLE BEFORE JANUARY 1, 2018

FINANCIAL ASSETS AND LIABILITIES

Financial instruments are contracts that give rise to a financial asset or a financial liability. Unless specifically covered by another accounting policy, the measurement of financial assets and financial liabilities was based on their classification, which was one of the following for SNC-Lavalin:

<table>
<tr><th>CATEGORY</th><th>APPLICABLE TO</th><th>INITIAL MEASUREMENT</th><th>SUBSEQUENT MEASUREMENT</th><th>RECOGNITION OF INCOME/EXPENSE AND GAINS/LOSSES ON REMEASUREMENT, IF ANY</th></tr>
<tr><td>Fair value through profit or loss ("FVTPL")</td><td>Financial assets and financial liabilities</td><td>Fair value</td><td>Fair value</td><td>All recognized in net income</td></tr>
<tr><td>Available-for-sale</td><td>Financial assets</td><td>Fair value including transaction costs</td><td>Fair value derived from published bid price quotations for listed securities. Where there was no active market, fair value was determined using valuation techniques. Where fair value could not be reliably measured, assets were carried at cost.</td><td>Investment income, which includes interest, dividends and distributions, were recognized in net income. Gains/losses from revaluation were recognized in other comprehensive income until assets were disposed of or impaired, at which time the gains/losses were recognized in net income.</td></tr>
<tr><td>Loans and receivables</td><td>Financial assets</td><td>Fair value including transaction costs</td><td rowspan="2">Amortized cost using the effective interest method</td><td rowspan="2">All recognized in net income</td></tr>
<tr><td>Other financial liabilities</td><td>Financial liabilities</td><td>Fair value including transaction costs</td></tr>
</table>

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, were assessed for indicators of impairment at the end of each reporting period. Financial assets were considered to be impaired when there was objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced with the amount of the loss recognized in net income.

When an available-for-sale financial asset was considered to be impaired, the cumulative gains or losses previously recognized in other comprehensive income were reclassified to net income. For available-for-sale equity instruments, impairment losses previously recognized in net income were not reversed through net income. Any increase in fair value subsequent to an impairment was recognized in other comprehensive income. For available-for-sale debt securities, impairment losses were subsequently reversed through net income if an increase in fair value of the investment could be objectively related to an event occurring after the recognition of the impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

POLICY APPLICABLE BEFORE AND AFTER JANUARY 1, 2018

HEDGING

In the normal course of its business, SNC-Lavalin enters into derivative financial instruments, namely i) forward exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and ii) interest-rate swaps to hedge the variability of interest rates relating to financing arrangements. SNC-Lavalin may also enter into other derivative financial instruments to hedge its exposure to market risk. When applying hedge accounting, SNC-Lavalin formally documents its accounting choice, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions, and regularly assesses the effectiveness of these hedges. The Company does not enter into derivative financial instruments for speculative purposes.

CASH FLOW HEDGES

Derivative financial instruments designated as cash flow hedges are measured at fair value established by using valuation techniques based on observable market data and taking into account the credit quality of the instruments. The effective portion of the change in fair value of the derivative financial instruments is recorded in other components of equity, while the ineffective portion, if any, of such change is recognized in net income. Gains or losses from cash flow hedges included in other components of equity are reclassified to net income as an offset to the losses or gains recognized on the underlying hedged items.

FAIR VALUE HEDGES

Changes in the fair value of derivatives that are designated and qualify as fair value hedges of an available-for-sale investment are recognized in net income immediately, together with any changes in the fair value of the hedged available-for-sale investment that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in net income in the same line item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under “Exchange differences on translating foreign operations” in the “Other components of equity”. The gain or loss relating to the ineffective portion is recognized immediately in net income, and is included in the “Financial expenses” line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the “Exchange differences on translating foreign operations” are reclassified to net income on the disposal of the foreign operation.

I) SERVICE CONCESSION ARRANGEMENTS UNDER IFRIC INTERPRETATION 12

IFRIC Interpretation 12, *Service Concession Arrangements*, (“IFRIC 12”) provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor (i.e., usually a government):

- controls or regulates what services the operator (i.e. “the concessionaire”) must provide with the infrastructure, to whom it must provide them, and at what price; and
- controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Under such concession arrangements, the concessionaire accounts for the infrastructure asset by applying one of the following accounting models depending on the allocation of the demand risk through the usage of the infrastructure between the grantor and the concessionaire:

ACCOUNTING MODEL	DEMAND RISK
Financial asset model	The concessionaire does not bear demand risk through the usage of the infrastructure (i.e., it has an unconditional right to receive cash irrespective of the usage of the infrastructure, e.g. availability payments).
Intangible asset model	The concessionaire bears demand risk (i.e., it has a right to charge fees for usage of the infrastructure).
Bifurcated model	The concessionaire shares demand risk with the grantor (i.e., the grantor pays the concessionaire for its services partly by a financial asset and partly by granting a right to charge users of the infrastructure).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues from service concession arrangements accounted for under IFRIC 12 are recognized as follows:

ACTIVITIES PROVIDED BY THE CONCESSIONAIRE	REVENUE RECOGNITION	CLASSIFICATION OF REVENUES IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT
Construction or upgrade (when a service concession arrangement involves the construction or upgrade of the public service infrastructure)	Revenues relating to such activities under a service concession arrangement are recognized based on the Company's accounting policy on recognizing revenue (see Note 2G).	The Company classifies these revenues as "from E&C" when SNC-Lavalin acts as an EPC contractor. When SNC-Lavalin does not act as an EPC contractor, revenues are recognized by the concession as part of "Capital investments" activities.
Operations and maintenance (these activities may include maintenance of the infrastructure and other activities provided directly to the grantor or the users)		The Company classifies these revenues as "from E&C" when SNC-Lavalin acts as an O&M contractor. When SNC-Lavalin does not act as an O&M contractor, revenues are recognized by the concession as part of "Capital investments" activities.
Rehabilitation (when a service concession arrangement requires the concessionaire to rehabilitate the infrastructure such that the infrastructure can deliver a specified standard of service at all times)		The Company classifies these revenues as "from E&C" activities when SNC-Lavalin acts as a rehabilitation contractor. When SNC-Lavalin does not act as a rehabilitation contractor, revenues are recognized by the concession as part of "Capital investments" activities.
Financing (when financial asset model or bifurcated model is applied)	Finance income generated on financial assets is recognized using the effective interest method.	The Company classifies this finance income as "Capital investments" activities.

Financial asset model

When the Company delivers more than one category of activity in a service concession arrangement, the consideration received or receivable is allocated by reference to the stand-alone selling price of the activity delivered.

Revenues recognized by the Company under the financial asset model are accumulated in "Receivables under service concession arrangements", a financial asset that is recovered through payments received from the grantor.

Intangible asset model

The Company recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Borrowing costs, if any, are capitalized until the infrastructure is ready for its intended use as part of the carrying amount of the intangible asset.

The intangible asset is then amortized over its expected useful life, which is the concession period in a service concession arrangement. Amortization period begins when the infrastructure is available for use.

Fees collected by the concessionaire upon the usage of the infrastructure are classified as revenues from "Capital investments" activities.

J) CASH EQUIVALENTS

Cash equivalents include short-term liquid investments that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are designated as FVTPL and accounted for at fair value.

K) RESTRICTED CASH

Restricted cash includes cash and cash equivalents for which the use is restricted for specific purposes under certain arrangements. Restricted cash that is not expected to become unrestricted within the next twelve months is included in "Other non-current financial assets". Restricted cash is designated as FVTPL and accounted for at fair value.

L) CONTRACTS IN PROGRESS – POLICY APPLICABLE BEFORE JANUARY 1, 2018

Contracts in progress represented the gross unbilled amount for a given project that was expected to be collected from customers for contract work performed to date. It was measured at cost plus profit recognized by the Company to date less progress billings.

If progress billings for a given project exceeded costs incurred plus recognized profits, then the difference was presented as deferred revenues.

M) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined: i) by using specific identification of the individual costs; or ii) on a weighted average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

N) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is recorded at rates set to charge operations with the cost of depreciable assets less their residual values (if any) over their estimated useful lives.

Property and equipment used for E&C activities are primarily:

CATEGORY	DEPRECIATION METHOD	DEPRECIATION PERIOD
Buildings	Straight-line, by component	10 to 50 years
Computer equipment	Straight-line	2 to 5 years
Office furniture	Diminishing balance	20%
Machinery	Straight-line	1 to 15 years

O) INTANGIBLE ASSETS OTHER THAN GOODWILL

<u>Intangible assets acquired in a business combination</u>

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets with definite useful life related to business combinations are primarily:

CATEGORY	AMORTIZATION METHOD	AMORTIZATION PERIOD
Revenue backlog	Straight-line	0.5 to 3.5 years
Customer relationships	Straight-line	7 and 10 years
Trademarks	Straight-line	4 to 8 years

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

P) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets, which mainly include property and equipment, and its intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of: i) fair value less costs to sell; and ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and risks. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in net income.

Q) GOODWILL

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to assets acquired and liabilities assumed. Goodwill on acquisition of subsidiaries is separately disclosed and goodwill on acquisitions of associates and joint ventures is included within investments accounted for by the equity method. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGU or group of CGU expected to benefit from the synergies of the combination. A CGU or group of CGU to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU or group of CGU may be impaired. If the recoverable amount of the CGU or group of CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or group of CGU and then to the other assets of the CGU or group of CGU pro-rata on the basis of the carrying amount of each asset in the CGU or group of CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The Company has designated October 31 as the date for the annual impairment test.

R) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except if the costs are related to the development and setup of new products, processes and systems and satisfy generally accepted conditions for capitalization, including reasonable assurance that they will be recovered. All capitalized development costs are amortized when commercial production begins, using the straight-line method over a period not exceeding five years.

S) DOWNPAYMENTS ON CONTRACTS – POLICY APPLICABLE BEFORE JANUARY 1, 2018

Downpayments on contracts were contractually agreed advance payments made by clients that were deducted from future billings to such clients as work was performed.

T) DEFERRED REVENUE – POLICY APPLICABLE BEFORE JANUARY 1, 2018

Deferred revenues consisted of amounts billed to clients for a given project in excess of revenue recognized according to the corresponding revenue recognition method and represented the opposite of contracts in progress. A given project presented an amount in either deferred revenues or in contracts in progress, but not both.

U) INCOME TAXES

Income taxes recognized in net income comprise the sum of deferred income tax and current income tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise amounts receivable from or payable to tax authorities relating to the current or prior reporting periods, which are uncollected or unpaid at the reporting date. Current tax is payable on taxable income, which differs from net income in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax on temporary differences associated with shares in subsidiaries, joint arrangements and associates is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred income tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. For management's assessment of the probability of future taxable income to utilize against deferred income tax assets, see Note 3.

Deferred income tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in deferred income tax assets or liabilities are recognized as a component of income taxes in net income, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred income tax is recognized in other comprehensive income or equity, respectively.

V) DEFINED BENEFIT PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS

Defined benefit pension plans, other long-term benefits and other post-employment benefits obligations are included in "Provisions" in the consolidated statement of financial position and have been determined using the projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement to the eligible employees and measures each unit separately to build up the final obligation. In valuing the defined benefit cost as well as other post-employment benefits, assumptions are based on management's best estimates, except for the discount rate where the Company uses the market interest rate at the measurement date based on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments.

Remeasurement, comprising: i) actuarial gains and losses, ii) the effect of the changes to the asset ceiling (if applicable), and iii) the return on plans' assets (excluding interest), is credited or charged to equity in other comprehensive income in the period in which it arises. Remeasurement recognized in other comprehensive income is not reclassified to net income in subsequent periods. The cumulative amount of remeasurement is included in retained earnings.

Defined benefit costs comprise: i) service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), ii) net interest expense or income; and iii) remeasurement. Service cost and net interest income or expense are recognized in net income while the remeasurement is recognized in other comprehensive income in the period. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

W) EARNINGS PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income attributable to SNC-Lavalin shareholders for the period by the basic and diluted weighted average number of shares, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of grant with deemed proceeds from the exercise of such dilutive options used to repurchase common shares at the average market price for the period.

X) SHARE-BASED PAYMENTS

Stock options

Stock options granted to employees are measured at their fair value at the grant date. The estimated fair value of the stock options is determined using the Black-Scholes option pricing model.

The fair value determined at the grant date of the stock options is expensed on a straight-line basis over the shorter of the vesting period or the term over which an employee becomes eligible to retire, based on the Company's estimate of stock options that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of stock options expected to vest and the impact of such revision, if any, is recognized in net income.

Share units

The 2017 Performance Share Unit plan ("2017 PSU plan"), 2014 Performance Share Unit plan ("2014 PSU plan"), Restricted Share Unit plan ("RSU plan"), 2009 Deferred Share Unit plan ("2009 DSU plan"), and Deferred Share Unit plan ("DSU plan") are collectively referred as "share unit plans". For share units granted to employees under the share unit plans, a liability is recognized and measured at the fair value of the liability, which is based on the Company's share price. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the period. From January 1, 2018, the fair value of the grants of share units is expensed in the income statement on a straight-line basis over the vesting period, based on the Company's estimate of share units that will eventually vest (see note 2B).

Y) PROVISIONS

A provision is a liability of uncertain timing or amount that is recognized in the consolidated statement of financial position.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructuring

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Z) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or a joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint control over the joint venture.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with IFRS 9, *Financial Instruments*, unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

AA) LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent rentals, if any, arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Finance leases

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between financial expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial expenses are recognized immediately in net income, unless they are directly attributable to qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, in which case they are capitalized to the cost of those assets. Contingent rentals, if any, are recognized as expenses in the periods in which they are incurred.

BB) SALE AND LEASE BACK TRANSACTIONS

A sale and leaseback transaction involves the sale of an asset by the Company and the leasing back of the same asset from the buyer.

Where a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognized as income by a seller-lessee. Instead, it is deferred and amortized over the lease term.

Where a leaseback transaction results in an operating lease:

- if the sale price of the asset is at fair value, the gain or loss from the sale is recognized immediately in the Company’s income statement;
- if the sale price of the asset is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used; and
- if the sale price of the asset is below fair value, any gain or loss is recognized immediately in the Company’s income statement except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company’s accounting policies, which are described in Note 2, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities recognized that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical accounting judgments and key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition

The identification of revenue-generating contracts with customers, the identification of performance obligations, the determination of the transaction price and its allocation between identified performance obligations, the use of the appropriate revenue recognition method (over time or at a point in time) for each performance obligation and the measure of progress for performance obligation satisfied over time are the main aspects of the revenue recognition process, all of which require the exercise of judgment and the use of assumptions.

The transaction price corresponds to the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Such amount may require the Company to estimate an amount of variable consideration, notably from estimated volume of work, claims and unpriced change orders, incentives or penalties, among others. Furthermore, the Company needs to constraint the transaction price by including only the amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The amount of variable consideration to be included in the transaction price of a given contract is determined by using various estimates and assumptions, which could be based on historical experience with the same customer or other similar contracts, third-party assessments, legal interpretation of relevant contractual clauses and probabilistic methodologies, among others. Due to the uncertain nature of the estimations, the amount of variable consideration may vary significantly over time. Such estimated amount of variable consideration then needs to be updated at the end of each reporting period.

The determination of anticipated costs for completing a contract is based on estimates that can be affected by a variety of factors such as potential variances in scheduling and cost of materials along with the availability and cost of qualified labour and subcontractors, productivity, and possible claims from subcontractors.

Service concession arrangements

The accounting for certain Capital investment activities requires the application of judgment in determining if they fall within the scope of IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"). Additional judgments need to be exercised when determining, among other things, the accounting model to be applied under IFRIC 12, the allocation of the consideration receivable between revenue-generating activities, the classification of costs incurred on such activities, the accounting treatment of rehabilitation costs and associated estimates, as well as the effective interest rate to be applied to the financial asset. As the accounting for Capital investments under IFRIC 12 requires the use of estimates over the term of the arrangement, any changes to these long-term estimates could result in a significant variation in the accounting for the Capital investments.

Basis of consolidation

Under certain circumstances, the determination of the Company's level of power over an investee requires exercise of judgment. As such, the classification of the entity as a subsidiary, a joint arrangement, an associate or a cost investment might require the application of judgment through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity's board of directors, and various other factors.

Values used in impairment tests

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU or group of CGU. Such recoverable amount corresponds, for the purpose of impairment assessment, to the higher of the value in use or the fair value less costs of disposal of the CGU or group of CGU to which goodwill has been allocated.

The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumptions required for the value in use estimation are the future cash flows growth rate and the discount rate.

When using the value in use approach, cash flows for each CGU or group of CGU are derived from the budget for the upcoming year, which is approved on an annual basis by members of the Company's Board of Directors, and a long-term forecast prepared by management, which covers an additional period from 3 to 5 years. Cash flows beyond the long-term forecast are extrapolated using a growth rate estimated by management. The discount rate is derived from the Company's post-tax weighted average cost of capital and is adjusted, where applicable, to take into account any specific risks.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

When the fair value less costs of disposal approach is used, the fair value is derived from a market multiple approach. Under this approach, transaction multiples are applied to such CGU's future results, mainly EBIT and earnings before interest, income taxes, depreciation and amortization. The key assumptions required for the fair value less costs of disposal are the future results of the CGU or group of CGU, the multiples being used and the costs of disposal.

Future results for each CGU or group of CGU are derived from the budget for the upcoming year. Transaction multiples are derived from observable market value of comparable publicly traded companies or fair value observed from recent acquisitions or disposals of businesses that are comparable to the CGU or group of CGU. Costs of disposal, which usually corresponds to a percentage of the fair value of the CGU or group of CGU, are estimated based on historical transactions of the Company or on input from recent transactions.

For both the value in use and the fair value less costs of disposal approaches, the values assigned to key assumptions reflect past experience and external sources of information that are deemed accurate and reliable. The value in use and the fair value are categorized as Level 3 in the fair value hierarchy described under IFRS 13, *Fair Value Measurement*, as one or more key assumption used is based on unobservable data requiring the use of judgement.

When there is any indication that the tangible and intangible assets other than goodwill have suffered an impairment loss, the determination of the recoverable amount of tangible and intangible assets other than goodwill requires management to estimate cash flows expected to arise from these assets and a suitable discount rate in order to calculate the present value in a manner described above for goodwill.

The identification of events that could have an impact on the estimated cash flows of the assets and the determination of these estimated cash flows require the exercise of judgment, which might result in significant variances in the carrying amount of these assets if found to be impaired.

<u>Measurement of retirement benefit obligations, other long-term benefit and other post-employment benefit obligations</u>

SNC-Lavalin's obligations and expenses relating to defined benefit pension plans, other long-term benefits and other post-employment benefits are determined using actuarial valuations, and are dependent on assumptions such as the rate of compensation increase, as determined by management. While management believes these assumptions represent its best estimate, differences in actual results or changes in assumptions could have an impact on the obligations, expenses and amounts of actuarial gains (losses) recognized in the consolidated statement of comprehensive income.

October 26, 2018 U.K. High Court ruling

As at December 31, 2018, SNC-Lavalin has certain defined benefit pension plans in United Kingdom ("U.K.") that are subject to guaranteed minimum pension ("GMP") accruals. An October 26, 2018 U.K. High Court ruling resulted in a higher pension obligation for SNC-Lavalin since the judgment: (i) requires plans to amend their pension formula to equalize benefits for men and women to adjust for the unequal results produce by the GMP between May 1990 and April 1997; (ii) provides permissible equalization methods under the law and allows the plan sponsors to use the lowest cost method; and (iii) requires plans to make back payments subject to plan rule limitations, with interest applied at one percentage point over the Bank of England base rate.

Whilst the judgment has put forward a range of possible approaches that could be adopted to equalize GMPs, it left it up to individual pension plan trustees and employers to determine their preferred approach. SNC-Lavalin expects that it will take time for trustees and employers to decide on the approach for GMP equalization, gather data for plan participants, calculate the new benefit and cost, and ultimately make payments to members.

As per its preliminary assessment, SNC-Lavalin recognized $25.1 million as past service cost in its consolidated income statement for the year ended December 31, 2018.

<u>Measurement of provisions shown in the consolidated statement of financial position</u>

In measuring a provision, the Company takes risks and uncertainties into account. The uncertainties mainly relate to timing and amount of a provision. Also, risks and uncertainties arise from discounting a provision, where the effect of the time value of money is significant, using a pre-tax discount rate that reflects current market assessments of the time value of money. Additionally, the Company takes future events, such as changes in the law, into account where there is sufficient objective evidence that they will occur when measuring a provision.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Contingent liabilities

As described in more detail in Note 35, the Company is subject to certain ongoing investigations and class action lawsuits have been filed against the Company. The outcome of these investigations or actions, while not determinable, could have a material adverse impact on the Company's liquidity and financial results.

Measurement of share-based payment expenses

The Company offers the 2017 PSU plan and 2014 PSU plan to selected individuals within the organization. Subject to performance conditions, the number of units granted is adjusted depending on specific indicators to determine the number of units to which all participants receiving the award will be entitled at the end of the vesting period. At each measurement date, management is required to estimate the number of 2017 performance share units and 2014 performance share units that will vest, which impacts the amount of associated liabilities and expenses.

Assessment of deferred income tax assets and liabilities

Deferred income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Deferred income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. This method requires the exercise of significant judgment in determining whether or not the Company's deferred income tax assets are probable to be recovered from future taxable income and therefore, can be recognized in the Company's consolidated financial statements. Also, estimates are required to determine the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled, and the enacted or substantively enacted tax rates that will apply at such time.

Measurement of financial instruments at fair value

The Company measures certain of its financial instruments at fair value. The determination of such fair value is based on the most readily available market data. When data is not readily available, management is required to estimate the fair value of the instrument using various inputs that are either directly or indirectly observable, or that are not based on observable market data.

Assets and liabilities acquired in a business combination

Intangible assets and goodwill arising out of business combinations are accounted for by applying the acquisition method of accounting to these transactions. In measuring the fair value of the assets acquired and the liabilities assumed and estimating their useful lives, the Company uses significant estimates and assumptions regarding cash flow projections, economic risk, and weighted average cost of capital.

These estimates and assumptions determine the amount allocated to intangible assets and goodwill, as well as the amortization period for intangible assets with finite lives. If results differ from estimates, the Company may increase amortization or recognize impairment charges.

Identification of functional currency

The functional currency for each subsidiary, joint operation, joint venture and associate, is the currency of the primary economic environment in which it operates. Determination of functional currency involves significant judgment and other entities may make different judgments based on similar facts. SNC-Lavalin reconsiders the functional currency of its businesses if there is a change in the underlying transactions, events or conditions which determine their primary economic environment.

The determination of functional currency affects the carrying value of non-current assets included in the statement of financial position and, as a consequence, the amortization of those assets included in the income statement. It also impacts exchange gains and losses included in the income statement and in equity.

4. SEGMENT DISCLOSURES

SNC-Lavalin's reportable segments are i) **Mining & Metallurgy**; ii) **Oil & Gas**; iii) **Nuclear**; iv) **Clean Power**; v) **Thermal Power**; vi) **Infrastructure**; vii) **Engineering, Design and Project Management** ("**EDPM**"); and viii) **Capital**.

The description of each of the segments is as follows:

Mining & Metallurgy combines global-caliber expertise with deep local capabilities to provide tailored solutions for projects of any size, scope or complexity in the aluminium, gold, copper, iron ore, nickel, fertilizer, commodities related to rechargeable batteries for cars, mobile phone and other electronic devices, and sulphur product sectors, among others. It includes a full range of activities and services in studies, sustaining capital and consulting, and major projects. However, as announced by the Company in February 2019, Mining & Metallurgy will cease to bid on EPC fixed-price contracts going forward.

Oil & Gas includes projects in the upstream, midstream, downstream and supporting infrastructure sectors for major oil and gas and resources companies. It supports these clients across the asset life cycle, from front-end evaluation through decommissioning (operational and capital expenditures).

Nuclear supports clients across the entire Nuclear life cycle with the full spectrum of services from consultancy, EPCM services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new-build and full refurbishment services of CANDU reactors.

Clean Power combines the Company's established leadership in hydro, transmission and distribution and extensive renewable energy capabilities, including in energy storage, providing fully integrated life-of-asset services capabilities.

Thermal Power includes projects in thermal power generation, a market that the Company has exited in 2018.

Infrastructure provides end-to-end services to a broad range of sectors, including mass transit, heavy rail, roads, bridges, airports, ports and harbours, facilities architecture and engineering (structural, mechanical, electrical), industrial (pharmaceutical, agrifood, life sciences, automation, industrial processes), geotechnical engineering, materials testing, and water infrastructure. In addition, Infrastructure includes O&M projects.

EDPM incorporates all engineering, design and project management services around the world, except for the Canadian market which remains fully integrated within Infrastructure segment. It also harnesses our enhanced capabilities in intelligent mobility and digital asset management. Projects are mainly in transportation, which includes rail, mass transit and roads, along with infrastructure, project management, aerospace, defence and security & technology. Some projects are primarily funded by the public sector and include projects with several departments of transportation, as well as the water treatment, environment, city and county markets, and the intermodal business.

Capital is the investment and asset management arm of SNC-Lavalin. Its main purpose is to invest equity or subordinated debt into projects to generate integrated, whole life-cycle revenues in engineering and construction, as well as operations and maintenance. All investments are structured to earn a return on capital adequate for the risk profile of each individual project. SNC-Lavalin makes capital investments in a variety of infrastructure assets such as bridges and highways, mass transit systems, power facilities, energy infrastructure and water treatment plants.

As disclosed in Note 2C, the Company modified the definition of segment EBIT, its measure of profit or loss for its reportable segments, to include an additional allocation of certain corporate selling, general and administrative expenses, whereas in the past it only included corporate selling, general and administrative expenses that were directly related to projects or segments. The additional costs that are being allocated to the segment EBIT are mainly related to information technology and to employee benefits and incentives.

Also, as disclosed in Note 2C, the Company initiated a strategic realignment of its organizational structure aimed at integrating the Atkins business, more effectively serving its clients worldwide and strengthening its position for longer-term growth. This realignment, which became effective January 1, 2018, resulted in a change to the Company's reportable segments, which are now: i) Mining & Metallurgy; ii) Oil & Gas; iii) Nuclear; iv) Clean Power; v) Thermal Power; vi) Infrastructure; vii) Engineering, Design and Project Management; and viii) Capital.

4. SEGMENT DISCLOSURES (CONTINUED)

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (Note 2). The Company evaluates segment performance using **segment EBIT**, which consists, except for the Capital segment, of Total segment EBIT (see Note 2C) less i) directly related selling, general and administrative expenses; ii) corporate selling, general and administrative expenses that are directly and indirectly related to projects or segments; and iii) non-controlling interests before income taxes. Corporate selling, general and administrative expenses that are not directly or indirectly related to projects or segments, impairment losses arising from expected credit losses, gains (losses) arising on financial assets (liabilities) at fair value through profit or loss, net 2012 class action lawsuits settlement expense and related legal costs, restructuring costs, goodwill impairment, acquisition-related costs and integration costs, amortization of intangible assets related to business combinations, gains (losses) from disposal(s) of E&C businesses and gain on disposal of the head office building are not allocated to the Company's segments.

The Company evaluates the Capital segment performance using: i) dividends or distributions received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net results of its investments, or dividends from its Capital investments for which the carrying amount is $nil, but would otherwise be negative based on historical financial results and dividends, for investments accounted for by the equity method; and iii) net result from investments accounted for by the consolidation method, less the portion attributable to non-controlling interests.

The Capital segment EBIT also reflects selling, general and administrative expenses, including corporate selling, general and administrative expenses that are directly and indirectly related to the segment. Accordingly, the **segment EBIT from Capital** is reported net of selling, general and administrative expenses.

4. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues and EBIT according to the Company's segments for the year ended December 31, 2018:

YEAR ENDED DECEMBER 31	2018			
		SEGMENT EBIT		
	REVENUES	E&C	CAPITAL	TOTAL
Mining & Metallurgy [1]	$ 475,393	$ (345,640)	$ –	$ (345,640)
Oil & Gas	2,525,971	96,737	–	96,737
Nuclear	932,616	146,201		146,201
Clean Power	377,178	17,204	–	17,204
Thermal Power	66,380	(29,481)		(29,481)
Infrastructure	2,226,821	107,227	–	107,227
EDPM	3,214,990	345,407	–	345,407
Total E&C segments	9,819,349	337,655	–	337,655
Capital	264,657	–	225,024	225,024
	$10,084,006			562,679
Reversal of non-controlling interests before income taxes included above		(284)	–	(284)
Total segment EBIT		337,371	225,024	562,395
Corporate selling, general and administrative expenses and others not allocated to the segments [2]		(93,588)	(27,706)	(121,294)
Impairment loss arising from expected credit losses		(1,349)	–	(1,349)
Loss arising on financial assets (liabilities) at fair value through profit or loss		(6,938)	(489)	(7,427)
Net 2012 class action lawsuits settlement expense and related legal costs (Note 35B)		(89,443)	–	(89,443)
Restructuring costs (Note 28)		(68,312)	(279)	(68,591)
Amortization of intangible assets related to business combinations (Note 17)		(206,471)	–	(206,471)
Acquisition-related costs and integration costs (Note 6D)		(54,878)	–	(54,878)
Gain on disposals/partial disposals of Capital investments (Note 5A)		–	67,552	67,552
Loss from disposals of E&C businesses (Note 7)		(474)	–	(474)
Impairment of goodwill (Note 16)		(1,240,415)	–	(1,240,415)
EBIT		(1,424,497)	264,102	(1,160,395)
Net financial expenses (Note 29)		155,986	11,459	167,445
Earnings (loss) before income taxes		(1,580,483)	252,643	(1,327,840)
Income taxes (Note 31B)		(18,100)	6,555	(11,545)
Net income (loss)		$ (1,562,383)	$ 246,088	$ (1,316,295)
Net income (loss) attributable to:				
SNC-Lavalin shareholders				$ (1,316,898)
Non-controlling interests				603
Net loss				$ (1,316,295)

(1) The negative segment EBIT of $345.6 million is primarily due to the under-performance of a major EPC project mainly due to the fact that the Company did not reach the required level of agreement with the client in order to meet the IFRS 15 conditions for revenue recognition, as well as substantial negative cost reforcast in the fourth quarter of 2018 required to deliver this project to completion.

(2) Includes $25.1 million of past service cost related to guaranteed minimum pension arising from October 26, 2018 U.K. High Court ruling (see Note 3).

4. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues and EBIT according to the Company's segments for the year ended December 31, 2017:

YEAR ENDED DECEMBER 31	2017 [1]			
		SEGMENT EBIT		
	REVENUES	E&C	CAPITAL	TOTAL
Mining & Metallurgy	$ 432,804	$ 15,929	$ –	$ 15,929
Oil & Gas	3,449,135	235,571	–	235,571
Nuclear	765,443	136,209	–	136,209
Clean Power	456,734	58,234	–	58,234
Thermal Power	332,024	(106,986)	–	(106,986)
Infrastructure	1,968,667	128,564	–	128,564
EDPM	1,691,908	184,868	–	184,868
Total E&C segments	9,096,715	652,389	–	652,389
Capital	238,003	–	212,872	212,872
	$ 9,334,718			865,261
Reversal of non-controlling interests before income taxes included above		1,116	–	1,116
Total segment EBIT		653,505	212,872	866,377
Corporate selling, general and administrative expenses and others not allocated to the segments		(105,206)	(25,400)	(130,606)
Loss arising on financial assets at fair value through profit or loss		(1,017)	–	(1,017)
Restructuring costs (Note 28)		(26,363)	–	(26,363)
Amortization of intangible assets related to business combinations (Note 17)		(138,892)	–	(138,892)
Acquisition-related costs and integration costs (Note 6D)		(124,300)	–	(124,300)
Gain on disposals/partial disposals of Capital investments (Note 5A)		–	42,078	42,078
Gain from disposals of E&C businesses (Note 7)		999	–	999
Gain on disposal of the head office building (Note 15)		115,101	–	115,101
EBIT		373,827	229,550	603,377
Net financial expenses (Note 29)		107,830	10,014	117,844
Earnings before income taxes		265,997	219,536	485,533
Income taxes (Note 31B)		88,886	13,496	102,382
Net income		$ 177,111	$ 206,040	$ 383,151
Net income attributable to:				
SNC-Lavalin shareholders				$ 382,035
Non-controlling interests				1,116
Net income				$ 383,151

[1] Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change in presentation (see Note 2C).

4. SEGMENT DISCLOSURES (CONTINUED)

The Company also discloses in the table below supplementary information such as its net income (loss) from E&C, its dividends from 407 International Inc. ("Highway 407 ETR"), and its net income from other Capital investments, as this information may be useful in assessing the Company's value.

It should be noted that supplementary information provided in the following table does not reflect information related to the Company's segments, but is rather an allocation of net income (loss) attributable to SNC-Lavalin shareholders between various components.

YEARS ENDED DECEMBER 31	2018	2017
Supplementary information:		
Net gain (loss) from disposals of E&C businesses (Note 7)	**$ (474)**	$ 850
Net gain on disposal of the head office building (Note 15)	**–**	101,531
Net 2012 class action lawsuits settlement expense and related legal costs, after income taxes (Note 35B)	**(65,740)**	–
Impairment of goodwill (Note 16)	**(1,240,415)**	–
Excluding the items listed above	**(256,357)**	73,614
Net income (loss) attributable to SNC-Lavalin shareholders from E&C	**(1,562,986)**	175,995
Net gain on disposals/partial disposals of Capital investments (Note 5A)	**59,823**	35,007
Highway 407 ETR dividends	**154,324**	141,718
Excluding the items listed above	**31,941**	29,315
Net income attributable to SNC-Lavalin shareholders from Capital	**246,088**	206,040
Net income (loss) attributable to SNC-Lavalin shareholders	**$ (1,316,898)**	$ 382,035

The following table presents property, equipment, goodwill and intangible assets inside and outside Canada reflected on the Company's consolidated statements of financial position:

	DECEMBER 31 2018	DECEMBER 31 2017
Property, equipment, goodwill and intangible assets (1)		
Canada	**$ 349,347**	$ 331,049
Outside Canada	**6,423,581**	7,496,365
	$ 6,772,928	$ 7,827,414

(1) All related to E&C activities

The following table presents revenues by geographic area according to project location for the year ended December 31, 2018:

YEAR ENDED DECEMBER 31	2018		
Revenues by geographic area (2)	ENGINEERING AND CONSTRUCTION	CAPITAL INVESTMENTS	TOTAL
Americas:			
Canada	**$ 2,711,355**	**$ 251,200**	**$ 2,962,555**
United States	**1,663,622**	**1,940**	**1,665,562**
Latin America	**302,412**	**–**	**302,412**
Middle East and Africa:			
Saudi Arabia	**1,020,724**	**–**	**1,020,724**
Other Middle East countries	**962,457**	**–**	**962,457**
Africa	**457,609**	**11,517**	**469,126**
Asia Pacific:			
Australia	**511,288**	**–**	**511,288**
Other	**227,630**	**–**	**227,630**
Europe:			
United Kingdom	**1,658,422**	**–**	**1,658,422**
Other	**303,830**	**–**	**303,830**
	$ 9,819,349	**$ 264,657**	**$ 10,084,006**

(2) In 2018, Canada, the United States, Saudi Arabia and the United Kingdom were the only countries where the Company derived more than 10% of its revenues.

4. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues by geographic area according to project location for the year ended December 31, 2017:

YEAR ENDED DECEMBER 31	2017		
Revenues by geographic area (1)	ENGINEERING AND CONSTRUCTION	CAPITAL INVESTMENTS	TOTAL
Americas:			
Canada	$ 2,705,956	$ 232,749	$ 2,938,705
United States	1,550,756	2,628	1,553,384
Latin America	341,586	–	341,586
Middle East and Africa:			
Saudi Arabia	992,933	–	992,933
Other Middle East countries	638,827	–	638,827
Africa	450,829	2,626	453,455
Asia Pacific:			
Australia	1,173,529	–	1,173,529
Other	152,385	–	152,385
Europe:			
United Kingdom	885,106	–	885,106
Other	204,808	–	204,808
	$ 9,096,715	$ 238,003	$ 9,334,718

(1) In 2017, Canada, Australia, the United States and Saudi Arabia were the only countries where the Company derived more than 10% of its revenues.

5. CAPITAL INVESTMENTS

SNC-Lavalin makes investments in infrastructure concessions for public services such as airports, bridges, public service buildings, highways, mass transit systems, power facilities, energy infrastructure and water treatment plants.

The main concessions and public-private partnerships contracts reported under IFRIC Interpretation 12, *Service Concession Arrangements,* ("IFRIC 12") are all accounted for under the financial asset model.

In order to provide the reader of the financial statements with a better understanding of the financial position and results of operations of its Capital investments, the Company presents certain distinct financial information related specifically to its Capital investments throughout its financial statements, as well as additional information below.

A) VARIATIONS IN OWNERSHIP INTERESTS IN INVESTMENTS

I) IN 2018

MCGILL HEALTHCARE INFRASTRUCTURE GROUP

On June 28, 2018, SNC-Lavalin announced that it has finalized the transfer of its investment in McGill Healthcare Infrastructure Group ("MHIG") and its holding company to SNC-Lavalin Infrastructure Partners LP (the "SNCL IP Partnership").

Net gain on disposal of MHIG

YEAR ENDED DECEMBER 31	**2018**
Consideration received in cash	$ 92,214
Consideration received in equity instruments of the SNCL IP Partnership	23,054
Total consideration received	115,268
Net assets disposed of (2)	(50,792)
Disposition-related costs	(1,762)
Gain on disposal of MHIG	**62,714**
Income taxes	(4,311)
Net gain on disposal of MHIG	**$ 58,403**

(2) Net assets disposed of mainly included a loan receivable of $88.9 million, a Capital investment accounted for by the equity method of $17.5 million, a deferred income tax liability of $59.3 million and other current net assets of $3.7 million.

5. CAPITAL INVESTMENTS (CONTINUED)

ASTORIA PROJECT PARTNERS II LLC

On August 28, 2018, SNC-Lavalin announced that it has reached an agreement to sell its ownership interest in Astoria Project Partners II LLC ("Astoria II"), the legal entity that owns and operates the Astoria II power plant in New York City. The purchaser, NM Harbert Astoria LLC, is a limited liability company, owned by affiliates of Northwestern Mutual and Harbert Management Corporation. On October 24, 2018, SNC-Lavalin completed the sale of its ownership interest in Astoria II.

Net gain on disposal of Astoria II

YEAR ENDED DECEMBER 31		2018
Consideration received in cash	$	51,336
Deferred sale proceeds		2,742
Total consideration received		54,078
Net assets disposed of [1]		(48,403)
Cumulative amount of exchange differences on translating foreign operations reclassified from equity		(678)
Disposition-related costs		(159)
Gain on disposal of Astoria II		**4,838**
Income taxes		(3,418)
Net gain on disposal of Astoria II	**$**	**1,420**

[1] Net assets disposed of included a Capital investment accounted for by the cost method of $54.8 million and a deferred income tax liability of $6.4 million.

For the year ended December 31, 2018, the gain on disposals of Capital investments is presented in the Company's consolidated income statement as follows:

YEAR ENDED DECEMBER 31		2018				
		BEFORE TAXES		INCOME TAXES		NET OF TAXES
Gain on disposal of MHIG	$	62,714	$	(4,311)	$	58,403
Gain on disposal of Astoria II		4,838		(3,418)		1,420
Gain on disposals of Capital investments	**$**	**67,552**	**$**	**(7,729)**	**$**	**59,823**

II) IN 2017

SNC-LAVALIN INFRASTRUCTURE PARTNERS LP

On June 30, 2017, SNC-Lavalin announced the launch of SNC-Lavalin Infrastructure Partners LP, established to efficiently redeploy capital back into development opportunities, and entered into a strategic agreement with a Canadian subsidiary of BBGI SICAV S.A. ("BBGI"). This SNCL IP Partnership would hold 100% of SNC-Lavalin's interests in a selection of its mature Canadian infrastructure assets and their holding companies.

On September 28, 2017, BBGI subscribed to units of the SNCL IP Partnership in an amount equal to 80% of the value of the following four assets: Okanagan Lake Concession Limited Partnership, InTransit BC Limited Partnership, Chinook Roads Partnership and Rainbow Hospital Partnership and contemporaneously SNC-Lavalin transferred to the SNCL IP Partnership all of its ownership in the four assets. A fifth asset, McGill Healthcare Infrastructure Group, G.P., was transferred to the SNCL IP Partnership on June 28, 2018, as mentioned above.

Net gain on partial disposal of the SNCL IP Partnership

YEAR ENDED DECEMBER 31		2017
Consideration received	$	98,774
Net assets disposed of		(48,682)
Cumulative share of other comprehensive loss of investments accounted for by the equity method reclassified from equity		(30,977)
Carrying amount of the investment retained in the SNCL IP Partnership		9,736
Gain attributable to measuring the investment retained in the SNCL IP Partnership at its fair value		14,957
Disposition-related costs		(7,133)
Gain on partial disposal of the SNCL IP Partnership		36,675
Income taxes		(10,206)
Net gain on partial disposal of the SNCL IP Partnership	**$**	**26,469**

5. CAPITAL INVESTMENTS (CONTINUED)

On September 28, 2017, excluding the BBGI's subscription, major classes of assets and liabilities of the SNCL IP Partnership were as follows:

	SEPTEMBER 28 2017
Cash and cash equivalents	$ 8,882
Restricted cash	3,347
Other current assets	11,104
Capital investments accounted for by the equity method	27,812
Other non-current assets	215,417
Assets disposed of	266,562
Current liabilities	44,622
Non-current liabilities	173,258
Liabilities disposed of	217,880
Net assets disposed of	**$ 48,682**

Net cash inflow on partial disposal of the SNCL IP Partnership

YEAR ENDED DECEMBER 31	2017
Consideration received in cash	$ 98,774
Less: cash and cash equivalents balances disposed of	(8,882)
Net cash inflow on partial disposal of the SNCL IP Partnership	**$ 89,892**

MCGILL HEALTHCARE INFRASTRUCTURE GROUP

On June 30, 2017, the joint venture McGill Healthcare Infrastructure Group, in which SNC-Lavalin previously held a 60% ownership interest, issued equity instruments to the other investor in MHIG, which resulted in a dilution of SNC-Lavalin's ownership interest to 50%. In addition, the Company's subordinated loan receivable from MHIG of $109.3 million (the "Subordinated Loan") was partially sold to the other investor in MHIG and was partially reimbursed by MHIG for a total cash consideration of $23.3 million.

Gain on equity transaction of MHIG

YEAR ENDED DECEMBER 31	2017
SNC-Lavalin's share of the contribution by the other investor in MHIG	$ 5,052
Cost of deemed disposal of 10% ownership interest in MHIG	(2,480)
Gain before income taxes	2,572
Income taxes	–
Net gain on equity transaction of MHIG	**$ 2,572**

Gain on Subordinated Loan transaction

YEAR ENDED DECEMBER 31	2017
Consideration received	$ 23,270
Carrying amount of the Subordinated Loan sold to the other investor	(18,218)
Carrying amount of the reimbursed Subordinated Loan	(2,221)
Gain before income taxes	2,831
Income taxes	–
Net gain on Subordinated Loan transaction	**$ 2,831**

5. CAPITAL INVESTMENTS (CONTINUED)

For the year ended December 31, 2017, the gain on disposals of Capital investments is presented in the Company's consolidated income statement as follows:

YEAR ENDED DECEMBER 31	2017		
	BEFORE TAXES	INCOME TAXES	NET OF TAXES
Gain on equity transaction of MHIG	$ 2,572	$ –	$ 2,572
Gain on Subordinated Loan transaction	2,831	–	2,831
Gain on partial disposal of MHIG	5,403	–	5,403
Gain on partial disposal of the SNCL IP Partnership	36,675	(10,206)	26,469
Income tax recovery, net, related to disposals of certain Capital investments	–	3,135	3,135
Gain on partial disposals of Capital investments	**$ 42,078**	**$ (7,071)**	**$ 35,007**

B) NET BOOK VALUE AND DESCRIPTIONS OF CAPITAL INVESTMENTS

The Company's consolidated statement of financial position includes the following net assets (liabilities) from its consolidated Capital investments and net book value from its Capital investments accounted for by the equity and cost methods.

	DECEMBER 31 2018	DECEMBER 31 2017
Net assets (liabilities) from Capital investments accounted for by the consolidation method	**$ 1,200**	$ (36,099)
Net book value of Capital investments accounted for by the equity method [(1)]	**357,249**	296,664
Net book value of Capital investments accounted for by the cost method	**10,663**	55,614
Total net book value of Capital investments	**$ 369,112**	$ 316,179

(1) Includes the Company's investment in Highway 407 ETR, for which the net book value was $nil as at December 31, 2018 and 2017.

I) CAPITAL INVESTMENTS ACCOUNTED FOR BY THE CONSOLIDATION METHOD

SNC-Lavalin's main Capital investment accounted for by the consolidation method is detailed below:

					OWNERSHIP INTEREST	
NAME OF CAPITAL INVESTMENT	PRINCIPAL ACTIVITY	SUBJECT TO IFRIC 12	MATURITY OF CONCESSION AGREEMENT	LOCATION	**DECEMBER 31 2018**	DECEMBER 31 2017
InPower BC General Partnership	John Hart Generating Replacement Facility (under construction)	Yes	2033	Canada	**100.0%**	100.0%

5. CAPITAL INVESTMENTS (CONTINUED)

II) CAPITAL INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

SNC-Lavalin's main Capital investments accounted for by the equity method are listed below:

					OWNERSHIP INTEREST	
NAME OF CAPITAL INVESTMENT	PRINCIPAL ACTIVITY	SUBJECT TO IFRIC 12	MATURITY OF CONCESSION AGREEMENT	LOCATION	**DECEMBER 31 2018**	DECEMBER 31 2017
Joint ventures:						
407 East Development Group General Partnership ("407 EDGGP")	32-km toll Highway 407 East	Yes	2045	Canada	**50.0%**	50.0%
407 International Inc.[1] ("Highway 407 ETR")	108-km toll highway under a 99-year concession agreement	No	2098	Canada	**16.77%**	16.77%
Crosslinx Transit Solutions General Partnership ("Eglinton Crosstown")	Eglinton Crosstown Light Rail Transit project (under construction)	Yes	2051	Canada	**25.0%**	25.0%
McGill Healthcare Infrastructure Group	McGill University Health Centre – Glen Campus under a 34-year concession agreement	Yes	2044	Canada	**–**	50.0%
Rideau Transit Group Partnership ("Rideau")	The Confederation Line, City of Ottawa's light rail transit system (under construction)	Yes	2043	Canada	**40.0%**	40.0%
Signature on the Saint-Laurent Group General Partnership ("SSL")	New Champlain Bridge Corridor (under construction)	Yes	2049	Canada	**50.0%**	50.0%
TC Dôme S.A.S.[2] ("TC Dôme")	5.3-km electric cog railway	Yes	2043	France	**51.0%**	51.0%
Associates:						
Myah Tipaza S.p.A.	Seawater desalination plant to supply treated water under a 25-year take-or-pay agreement	No	N/A	Algeria	**25.5%**	25.5%
Shariket Kahraba Hadjret En Nouss S.p.A.	1,227 MW gas-fired thermal power plant supplying electricity under a 20-year take-or-pay agreement	No	N/A	Algeria	**26.0%**	26.0%
SNC-Lavalin Infrastructure Partners LP	Holding interests in mature Capital investments	No	N/A	Canada	**20.0%**	20.0%

(1) Although the Company holds less than 20% of the equity shares of Highway 407 ETR, the Company exercises joint control over this entity based on its contractual agreements.

(2) Although the Company's ownership interest TC Dôme is more than 50%, the Company does not exercise control over this entity based on its contractual agreements.

N/A: not applicable

5. CAPITAL INVESTMENTS (CONTINUED)

Capital investments accounted for by the equity method – joint ventures

SNC-Lavalin carries out part of its Capital investment activity through joint ventures which are accounted for by the equity method. The aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities, revenues and expenses related to such joint ventures are summarized below:

YEAR ENDED DECEMBER 31, 2018	HIGHWAY 407 ETR	OTHER CAPITAL INVESTMENTS	TOTAL
Income statements			
Revenues (at 100%)	**$ 1,390,314**	**$ 1,899,232**	**$ 3,289,546**
Interest income (at 100%)	**$ 19,786**	**$ 9,624**	**$ 29,410**
Interest expense (at 100%)	**$ 390,008**	**$ 119,803**	**$ 509,811**
Depreciation and amortization (at 100%)	**$ 107,348**	**$ –**	**$ 107,348**
Income tax expense (at 100%)	**$ 194,044**	**$ 4**	**$ 194,048**

YEAR ENDED DECEMBER 31, 2017	HIGHWAY 407 ETR	OTHER CAPITAL INVESTMENTS	TOTAL
Income statements			
Revenues (at 100%)	$ 1,267,673	$ 2,170,740	$ 3,438,413
Interest income (at 100%)	$ 15,693	$ 3,758	$ 19,451
Interest expense (at 100%)	$ 372,027	$ 150,939	$ 522,966
Depreciation and amortization (at 100%)	$ 105,854	$ 67	$ 105,921
Income tax expense (at 100%)	$ 169,456	$ 5	$ 169,461

YEAR ENDED DECEMBER 31, 2018	HIGHWAY 407 ETR	OTHER CAPITAL INVESTMENTS	TOTAL
Statements of comprehensive income			
Net income (at 100%)	**$ 538,888**	**$ 79,786**	**$ 618,674**
Other comprehensive loss (at 100%)	**(755)**	**(3,100)**	**(3,855)**
Total comprehensive income (at 100%)	**$ 538,133**	**$ 76,686**	**$ 614,819**

YEAR ENDED DECEMBER 31, 2017	HIGHWAY 407 ETR	OTHER CAPITAL INVESTMENTS	TOTAL
Statements of comprehensive income			
Net income (at 100%)	$ 470,153	$ 62,237	$ 532,390
Other comprehensive income (loss) (at 100%)	(733)	21,757	21,024
Total comprehensive income (at 100%)	$ 469,420	$ 83,994	$ 553,414

YEARS ENDED DECEMBER 31	**2018**	2017
Company's share of net income of Capital investments based on its ownership interest [(1)]	**$ 122,878**	$ 104,367
Company's net income from Capital investments included in its income statement [(1)]	**$ 188,345**	$ 169,881

(1) See Note 1 on the following page

5. CAPITAL INVESTMENTS (CONTINUED)

DECEMBER 31, 2018	HIGHWAY 407 ETR	OTHER CAPITAL INVESTMENTS	TOTAL
Statements of financial position			
Cash and cash equivalents (at 100%)	**$ 308,156**	**$ 7,225**	**$ 315,381**
Other current assets (at 100%)	**483,441**	**380,000**	**863,441**
Non-current assets (at 100%)	**4,469,457**	**3,594,777**	**8,064,234**
Total assets (at 100%)	**5,261,054**	**3,982,002**	**9,243,056**
Trade payables (at 100%)	**57,700**	**38,053**	**95,753**
Other current financial liabilities (at 100%)	**104,566**	**450,367**	**554,933**
Other current non-financial liabilities (at 100%)	**47,065**	**–**	**47,065**
Other non-current financial liabilities (at 100%)	**8,350,991**	**3,245,870**	**11,596,861**
Other non-current non-financial liabilities (at 100%)	**513,529**	**884**	**514,413**
Total liabilities (at 100%)	**9,073,851**	**3,735,174**	**12,809,025**
Net assets (liabilities) (at 100%)	**$ (3,812,797)**	**$ 246,828**	**$ (3,565,969)**
Company's carrying value of Capital investments included in its statement of financial position [1]	**$ –**	**$ 192,474**	**$ 192,474**

DECEMBER 31, 2017	HIGHWAY 407 ETR	OTHER CAPITAL INVESTMENTS	TOTAL
Statements of financial position			
Cash and cash equivalents (at 100%)	$ 763,144	$ 4,726	$ 767,870
Other current assets (at 100%)	455,874	122,459	578,333
Non-current assets (at 100%)	4,409,051	3,645,862	8,054,913
Total assets (at 100%)	5,628,069	3,773,047	9,401,116
Trade payables (at 100%)	85,917	35,474	121,391
Other current financial liabilities (at 100%)	523,922	243,761	767,683
Other current non-financial liabilities (at 100%)	88,200	2,580	90,780
Other non-current financial liabilities (at 100%)	7,855,082	3,313,623	11,168,705
Other non-current non-financial liabilities (at 100%)	509,793	1,713	511,506
Total liabilities (at 100%)	9,062,914	3,597,151	12,660,065
Net assets (liabilities) (at 100%)	$ (3,434,845)	$ 175,896	$ (3,258,949)
Company's carrying value of Capital investments included in its statement of financial position [1]	$ –	$ 163,017	$ 163,017

[1] Under the equity method of accounting, distributions from a joint venture reduce the carrying amount of the investment. The equity method of accounting requires the Company to stop recognizing its share of the losses of a joint venture when the recognition of such losses results in a negative balance for its investment, or where dividends declared by the joint venture are in excess of the carrying amount of the investment. In these events, the carrying value of the investment is reduced to $nil, but does not become negative, unless the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. In these situations, the Company no longer recognizes its share of net income of a Capital investment based on its ownership, but rather recognizes the excess amount of dividends declared by a joint venture in its net income.

As a result, the Company recognized in its income statement dividends from Highway 407 ETR of $154.3 million in 2018 (2017: $141.7 million) and did not recognize its share of Highway 407 ETR's net income of $90.4 million (2017: $78.9 million) in the same period, as the carrying amount of its investment in Highway 407 ETR was $nil at December 31, 2018 and 2017. The negative carrying value of the Company's investment in Highway 407 ETR, which is not recognized on the Company's statement of financial position, amounted to $642.0 million as at December 31, 2018 (2017: $577.9 million).

5. CAPITAL INVESTMENTS (CONTINUED)

Capital investments accounted for by the equity method - associates

The summary tables below provide supplementary information in respect of Capital investments classified as associates:

YEARS ENDED DECEMBER 31	2018	2017
Statements of comprehensive income		
Revenues (at 100%)	$ 250,223	$ 280,838
Expenses (at 100%)	180,969	226,533
Net income (at 100%)	69,254	54,305
Other comprehensive income (loss) (at 100%)	–	(3,727)
Total comprehensive income (at 100%)	$ 69,254	$ 50,578
Company's share of net income of Capital investments based on its ownership interest	$ 15,742	$ 14,938
Company's share of net income from Capital investments included in its income statement	$ 15,742	$ 14,938

	DECEMBER 31 2018	DECEMBER 31 2017
Statements of financial position		
Current assets (at 100%)	$ 369,711	$ 362,290
Non-current assets (at 100%)	729,648	626,411
Total assets (at 100%)	1,099,359	988,701
Current liabilities (at 100%)	157,761	154,580
Non-current liabilities (at 100%)	339,562	369,618
Total liabilities (at 100%)	497,323	524,198
Net assets (at 100%)	$ 602,036	$ 464,503
Company's carrying value of Capital investments included in its statement of financial position	$ 164,775	$ 133,647

III) CAPITAL INVESTMENTS ACCOUNTED FOR BY THE COST METHOD

The main Capital investments accounted for by the cost method are listed below:

			OWNERSHIP INTEREST	
NAME OF CAPITAL INVESTMENT	PRINCIPAL ACTIVITY	LOCATION	DECEMBER 31 2018	DECEMBER 31 2017
Astoria Project Partners II LLC (1)	550 MW natural-gas power plant	U.S.A.	–	6.2%
Carlyle Global Infrastructure Opportunity Fund, L.P. (2)	Holding investments in infrastructure projects related to energy, power and other natural resources	U.S.A.	8.1%	–
Highway Concessions One Private Limited (2)	Engages in the business of bidding for, owning, acquiring, investing, developing, implementing and operating infrastructure in the roads sector of India	India	10.0%	10.0%

(1) Included in the measurement category of "at fair value through profit or loss"

(2) Included in the measurement category of "at fair value through other comprehensive income"

The investments in Carlyle Global Infrastructure Opportunity Fund, L.P. and in Highway Concession One Private Limited are designated to be measured at fair value through other comprehensive income to avoid the variability of the Company's net income in the future periods.

For the years ended December 31, 2018 and 2017, the Company's consolidated income includes revenues of $1.9 million and $2.6 million, respectively, from these investments.

5. CAPITAL INVESTMENTS (CONTINUED)

C) PAYMENTS AND REMAINING COMMITMENTS IN CAPITAL INVESTMENTS

When making investments in infrastructure concessions, SNC-Lavalin may not be required to make its contribution immediately but instead may commit to make its contribution over time.

The following table summarizes SNC-Lavalin's payments and outstanding commitments to invest in Capital investments accounted for by the equity or cost methods as at December 31, 2018 and 2017:

	2018	2017
Commitments to invest in Capital investments – January 1	**$ 98,050**	$ 98,050
Increase in commitments to invest in Capital investments	**10,262**	–
Payments for Capital investments during the year	**–**	–
Commitments to invest in Capital investments – December 31	**$ 108,312**	$ 98,050

At December 31, 2018, the commitments to invest in Capital investments were related to contributions for Rideau, SSL, Eglinton Crosstown and Carlyle Global Infrastructure Opportunity Fund, L.P. (2017: Rideau, SSL and Eglinton Crosstown) and were presented as "Other current financial liabilities" (see Note 20) since they are either expected to be paid in the following year or are callable on demand.

In 2016, SNC-Lavalin signed an agreement to support a commitment of US$100 million to a fund focused on global infrastructure investments sponsored by The Carlyle Group ("Carlyle"), subject to certain conditions. The intent of this agreement is for SNC-Lavalin and Carlyle to cooperate with respect to investments in, and work on, infrastructure projects related to energy, power and other natural resources that include a significant amount of greenfield development, construction or other capital expenditures programs. As at December 31, 2018, the accounting conditions required to recognize a liability of US$7.5 million (approximately CA$10.3 million) in relation to this agreement have been met (2017: $nil).

6. BUSINESS COMBINATIONS

A) LINXON PVT LTD

On September 1, 2018, SNC-Lavalin acquired from a subsidiary of ABB Ltd ("ABB") a 51% ownership interest in Linxon Pvt Ltd ("Linxon"), incorporated under the laws of England and Wales, for the execution of turnkey electrical substation projects. Turnkey solutions include project design, engineering, procurement, construction, management, commissioning and after-sales support. The primary reason for this business combination was to combine ABB's technology leadership with SNC-Lavalin's expertise in managing projects to deliver enhanced customer value.

The acquisition of Linxon by SNC-Lavalin has been accounted for using the acquisition method and Linxon has been consolidated from the effective date of acquisition, which is September 1, 2018, with a non-controlling interest of 49%.

FAIR VALUE OF NET IDENTIFIABLE ASSETS (LIABILITIES) OF BUSINESS ACQUIRED

AT SEPTEMBER 1, 2018	PRELIMINARY ALLOCATION	ADJUSTMENTS	REVISED PRELIMINARY ALLOCATION
Cash	**$ 8,314**	**$ –**	**$ 8,314**
Trade receivables [(1)]	**9,398**	**–**	**9,398**
Contract assets	**14,208**	**–**	**14,208**
Other current and non-current assets	**9,919**	**5,216**	**15,135**
Trade payables	**(30,403)**	**–**	**(30,403)**
Contract liabilities	**(9,806)**	**–**	**(9,806)**
Other current and non-current liabilities	**(5,793)**	**(248)**	**(6,041)**
Fair value of net identifiable assets (liabilities) of business acquired	**$ (4,163)**	**$ 4,968**	**$ 805**

(1) The gross contractual amounts receivable are $9.4 million of which $nil is the estimated amount at the acquisition date of the contractual cash flows not expected to be collected.

6. BUSINESS COMBINATIONS (CONTINUED)

The above presents management's preliminary assessment of the fair values of assets acquired and liabilities assumed based on best estimates taking into account all relevant information available. Because the Company only recently acquired Linxon, it is not practical to definitively allocate the purchase price as at December 31, 2018. The accounting for the business combination is expected to be completed as soon as management has gathered all of the significant information available and considered necessary in order to finalize this allocation, but not later than 1 year after the acquisition date. The effect may be to transfer an amount to or from the assets acquired, liabilities assumed and goodwill during such measurement period. During that period, the Company will retrospectively adjust the provisional amounts recognized as at the acquisition date to reflect information obtained about facts and circumstances that existed and, if known, would have affected the measurement of the amounts recognized as at the acquisition date. In addition, since the Company is still finalizing the valuation of assets acquired and liabilities assumed at the date of acquisition, the final allocation of the purchase price may vary significantly from the amounts presented above.

GOODWILL ARISING ON THE BUSINESS COMBINATION

AT SEPTEMBER 1, 2018	PRELIMINARY ALLOCATION	ADJUSTMENTS	REVISED PRELIMINARY ALLOCATION
Contingent consideration to be transferred to seller (1)	$ 16,470	$ –	$ 16,470
Plus: Non-controlling interest of 49% (2)	(2,040)	2,434	394
Less: Fair value of net identifiable assets (liabilities) of business acquired	(4,163)	4,968	805
Goodwill and other intangible assets (3)	**$ 18,593**	**$ (2,534)**	**$ 16,059**

(1) Under the business combination arrangement, SNC-Lavalin is required to remit a portion of its future dividends distributed in cash by Linxon, if any, to ABB for a total aggregate amount of US$25 million (approximately CA$32.6 million). The range of outcome of the contingent consideration is between US$nil and US$25 million (approximately between CA$nil and CA$32.6 million). The amount of $16.5 million represents the preliminary estimated fair value of this obligation at the acquisition date, which was determined using the present value technique.

(2) The non-controlling interest recognized at the acquisition date was measured at its proportionate share of the value of net identifiable assets (liabilities) acquired.

(3) Goodwill represents the excess of the cost of acquisition and of non-controlling interest over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values. The fair value allocated to tangible and intangible assets acquired and liabilities assumed are based on assumptions of management. The total amount of goodwill that is expected to be deductible for tax purposes is $0.3 million.

Goodwill arose in the business combination because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognized separately from goodwill as the future economic benefits arising from these items cannot be measured reliably.

NET CASH INFLOW ON ACQUISITION OF LINXON

YEAR ENDED DECEMBER 31	2018
Consideration paid in cash	$ –
Less: Return of contingent consideration to be transferred to seller received in cash (4)	3,981
Less: Additional cash received after the acquisition date (5)	7,171
Less: Cash at acquisition as per above	8,314
Net cash inflow on acquisition of Linxon	**$ (19,466)**

(4) Under the business combination arrangement, ABB is required to compensate Linxon in cash an amount based on the date of transfer of certain additional assets and liabilities, up to June 30, 2019. The range of outcome of such right to a return of contingent consideration to be transferred to seller is between US$nil and US$8.3 million (approximately between CA$nil and CA$10.8 million).

(5) As per the terms of the business combination agreement between SNC-Lavalin and ABB, ABB transferred additional assets and liabilities to Linxon, including cash for a total amount of $7.2 million, after the acquisition date.

IMPACT OF THE BUSINESS ACQUISITION ON THE RESULTS OF SNC-LAVALIN

SNC-Lavalin's consolidated revenues and net loss attributable to SNC-Lavalin shareholders in the year ended December 31, 2018 included approximately $58.7 million of revenues and $0.1 million of net loss attributable to SNC-Lavalin shareholders from the business acquisition of Linxon completed by SNC-Lavalin on September 1, 2018. Had the acquisition of Linxon and related acquisition-related costs occurred on January 1, 2018, SNC-Lavalin pro forma consolidated revenues and net loss attributable to SNC-Lavalin shareholders would have been approximately $10,139.3 million and $1,320.3 million, respectively. These pro forma figures have been estimated based on the results of the acquired business prior to SNC-Lavalin's acquisition date and should not be viewed as indicative of SNC-Lavalin's consolidated future performance.

6. BUSINESS COMBINATIONS (CONTINUED)

B) WS ATKINS PLC

On July 3, 2017, SNC-Lavalin acquired WS Atkins Limited (previously WS Atkins plc) ("Atkins"). Headquartered in the United Kingdom, Atkins is a global design, engineering and project management consultancy, with a position across the infrastructure, transportation and energy sectors. The primary reasons for the acquisition were to bring to SNC-Lavalin new and complementary capabilities in its existing activities, with minimal overlap in its service offering, and to broaden the Company's presence in Europe, the U.K., Scandinavia, the U.S., the Middle East and Asia.

The acquisition of Atkins has been accounted for using the acquisition method, and Atkins has been consolidated from the effective date of acquisition with the Company acquiring 100% of the voting shares of Atkins.

FINAL ALLOCATION OF PURCHASE PRICE

In 2018, the Company modified the preliminary allocation of purchase price and has retrospectively revised the impact of changes to the preliminary allocation of purchase price. However, since the effect on net income was not material to the period subsequent to acquisition date, the cumulative adjustment to earnings was accounted for in 2018.

AT JULY 3, 2017	PRELIMINARY ALLOCATION OF PURCHASE PRICE	NOTE	ADJUSTMENTS	FINAL ALLOCATION OF PURCHASE PRICE
Cash and cash equivalents	$ 388,280		$ –	$ 388,280
Trade receivables	584,319	A	(14,780)	569,539
Contracts in progress / Contract assets	337,230	A	4,269	341,499
Other current assets	131,760	A	1,201	132,961
Other non-current assets	240,068	A	45,496	285,564
Intangible assets related to Atkins acquisition	721,756		317,283	1,039,039
Trade payables and other current liabilities	(1,018,962)	B	(181,422)	(1,200,384)
Short-term debt and long-term debt	(517,759)		–	(517,759)
Non-current liabilities and non-controlling interests	(578,400)	C	(133,730)	(712,130)
Net identifiable assets of business acquired	288,292		38,317	326,609
Goodwill [(1), (2)]	3,219,402		(38,317)	3,181,085
Total purchase price	$ 3,507,694		$ –	$ 3,507,694

(1) Goodwill represents the excess of the cost of acquisition over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values. The fair value allocated to tangible and intangible assets acquired and liabilities assumed are based on assumptions of management. These assumptions include the future expected cash flows arising from the intangible assets identified as revenue backlog, customer relationships and trademarks. The total amount of goodwill that is expected to be deductible for tax purposes is $118.8 million.

(2) In relation with the agreement to acquire Atkins, SNC-Lavalin entered into forward foreign exchange contracts under which SNC-Lavalin sold Canadian dollars and bought British pounds. Forward foreign exchange contracts having a notional value of £1,500 million were classified as derivatives used for cash flow hedges until the payment date, which occurred in July 2017. The effective portion of the loss arising from these hedging instruments, which amounted to $2.7 million before income taxes ($2.7 million after income taxes), was initially recognized in "Cash flow hedges" in the Company's consolidated statement of comprehensive income and was subsequently recognized as a reclassification adjustment to goodwill on the date of acquisition of Atkins (see Note 25).

The main adjustments made to the preliminary allocation of purchase price are as follows:

A. Project-related assets

The Company adjusted the initial value of project-related assets, such as trade receivables and contracts in progress / contract assets, to reflect new information obtained about facts and circumstances that existed at the date of acquisition related to these projects.

B. Trade payables and other current liabilities

The Company adjusted the initial value allocated to certain trade payables and other current liabilities, mainly on project-related liabilities and on the short-term portion of certain provisions existing at the date of acquisition.

C. Non-current liabilities and non-controlling interests

This adjustment mainly represents the impact on deferred income tax liability from adjustments discussed above, as well as adjustments made to the fair value of certain provisions existing at the date of acquisition.

6. BUSINESS COMBINATIONS (CONTINUED)

The total purchase price related to the acquisition of Atkins included in the consolidated statement of cash flows is as follows:

YEAR ENDED DECEMBER 31	2017
Total purchase price as per above	$ 3,507,694
Less: Cash and cash equivalents at acquisition as per above	388,280
Net cash outflow on acquisition of Atkins	**$ 3,119,414**

C) DATA TRANSFER SOLUTIONS LLC

On October 31, 2017, SNC-Lavalin announced the acquisition of Data Transfer Solutions LLC ("DTS"). Completed on October 30, 2017, the acquisition added to the capabilities of SNC-Lavalin's EDPM segment and enhanced service offerings in digital asset management for clients.

The acquisition of DTS has been accounted for using the acquisition method and DTS has been consolidated from the effective date of acquisition with the Company acquiring 100% of the voting shares of DTS.

FINAL ALLOCATION OF PURCHASE PRICE

In 2018, the Company modified the preliminary allocation of purchase price and has retrospectively revised the impact of changes to the preliminary allocation of purchase price. However, since the effect on net income was not material to the period subsequent to acquisition date, the cumulative adjustment to earnings was accounted for in 2018.

AT OCTOBER 30, 2017	PRELIMINARY ALLOCATION OF PURCHASE PRICE	ADJUSTMENTS	FINAL ALLOCATION OF PURCHASE PRICE
Cash and cash equivalents	**$ 1,619**	**$ –**	**$ 1,619**
Trade receivables	**5,492**	**(205)**	**5,287**
Contracts in progress / Contract assets	**3,865**	**(3,525)**	**340**
Other current assets	**172**	**–**	**172**
Other non-current assets	**1,995**	**(2)**	**1,993**
Intangible assets related to DTS acquisition	**–**	**25,145**	**25,145**
Trade payables and other current liabilities	**(4,209)**	**(751)**	**(4,960)**
Net identifiable assets of business acquired	**8,934**	**20,662**	**29,596**
Goodwill (1), (2)	**49,993**	**(20,662)**	**29,331**
Total purchase price	**$ 58,927**	**$ –**	**$ 58,927**

(1) The goodwill amount determined according to the preliminary allocation of purchase price included identifiable intangible assets, which are now presented separately under "Intangible assets related to DTS acquisition" in the final allocation of purchase price.

(2) Goodwill represents the excess of the cost of acquisition over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values. The fair value allocated to tangible and intangible assets acquired and liabilities assumed are based on assumptions of management. These assumptions include the future expected cash flows arising from the intangible assets identified as revenue backlog, customer relationships and trademarks. The total amount of goodwill that is expected to be deductible for tax purposes is $50.0 million.

The total purchase price related to the acquisition of DTS, net of cash and cash equivalents at acquisition, is as follows:

YEAR ENDED DECEMBER 31	2017
Total purchase price as per above	$ 58,927
Less: Cash and cash equivalents at acquisition as per above	1,619
Net cash outflow on acquisition of DTS	**$ 57,308**

The total purchase price related to the acquisitions of Atkins and DTS included in the consolidated statement of cash flows is as follows:

YEAR ENDED DECEMBER 31	2017
Atkins	$ 3,119,414
DTS	57,308
Net cash outflow on acquisition of businesses	**$ 3,176,722**

6. BUSINESS COMBINATIONS (CONTINUED)

D) ACQUISITION-RELATED COSTS AND INTEGRATION COSTS

Acquisition-related costs and integration costs amounted to $54.9 million in year ended December 31, 2018, of which $2.0 million related solely to the acquisition-related costs.

Acquisition-related costs and integration costs amounted to $124.3 million in year ended December 31, 2017, of which $76.3 million related solely to the acquisition-related costs, and included the following costs, among others:

- a loss of $48.7 million from remeasurement of a foreign exchange option; and
- a net foreign exchange gain of $9.7 million due to the timing difference between the date of acquisition and the date of payment for such acquisition.

7. DISPOSALS OF E&C BUSINESSES

For the years ended December 31, 2018 and 2017, the gain (loss) on disposals of E&C businesses is presented in the Company's consolidated income statement as follows:

YEARS ENDED DECEMBER 31		**2018**		2017
Gain (loss) related to 2016 disposals	**$**	**(474)**	$	555
Gain on disposal of Equinox		**–**		444
Gain (loss) from disposals of E&C businesses	**$**	**(474)**	$	999

In 2018 and 2017, adjustments on consideration receivable (payable) related to certain disposals made in 2016 resulted in a loss of $0.5 million before and net of taxes and in a gain of $0.6 million before income taxes ($0.4 million net of taxes), respectively.

EQUINOX CA EUROPE LTD.

On October 13, 2017, SNC-Lavalin completed the sale of its ownership interest of 100% in Equinox CA Europe Ltd. ("Equinox") in exchange for total cash consideration of €6.8 million (CA$10.1 million).

Net gain on disposal of Equinox

YEAR ENDED DECEMBER 31		2017
Consideration received	$	10,120
Net assets disposed of [(1)]		(8,961)
Disposition-related costs		(715)
Gain on disposal of Equinox		444
Income taxes		–
Net gain on disposal of Equinox	**$**	**444**

(1) On October 13, 2017, net assets disposed of included cash and cash equivalents of $32.1 million, other current assets of $0.2 million and current liabilities of $23.3 million.

Net cash outflow on disposal of Equinox

YEAR ENDED DECEMBER 31		2017
Consideration received in cash	$	10,120
Less: cash and cash equivalents balances disposed of		(32,064)
Net cash outflow on disposal of Equinox	**$**	**(21,944)**

8. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

A) CASH AND CASH EQUIVALENTS

	DECEMBER 31 2018	DECEMBER 31 2017
Bank balances, bank term deposits and bankers' acceptances	$ 634,084	$ 706,531
Cash and cash equivalents	$ 634,084	$ 706,531

B) RESTRICTED CASH

	DECEMBER 31 2018	DECEMBER 31 2017
Bank balances, bank term deposits and bankers' acceptances	$ 12,722	$ 20,932
Restricted cash	$ 12,722	$ 20,932

9. TRADE RECEIVABLES AND CONTRACT ASSETS

A) TRADE RECEIVABLES

The following table presents the Company's trade receivables that are within normal terms of payment separately from those that are past due, with a reconciliation to the net carrying amount:

	DECEMBER 31 2018	DECEMBER 31 2017
Trade receivables:		
Within normal terms of payment	$ 1,169,919	$ 1,234,395
Past due	574,169	375,449
Total trade receivables	1,744,088	1,609,844
Allowance for doubtful accounts	–	(163,985)
Allowance for expected credit losses	(240,264)	–
Trade receivables, net of allowance for expected credit losses / allowance for doubtful accounts	$ 1,503,824	$ 1,445,859

The change in the allowance for expected credit losses / allowance for doubtful accounts is detailed below:

YEARS ENDED DECEMBER 31	2018	2017
Balance at beginning of year	$ 163,985	$ 121,974
Transitional adjustment on adoption of a new accounting standard (Note 2B)	3,044	–
Adjusted balance at beginning of year	167,029	121,974
Change in allowance, other than write-offs and recoveries	128,897	136,534
Write-offs of trade receivables	(33,587)	(73,175)
Recoveries	(22,075)	(21,348)
Balance at end of year	$ 240,264	$ 163,985

B) CONTRACT ASSETS

As at December 31, 2018, the Company has contract assets of $1,751.1 million which is net of an allowance for expected credit losses of $11.2 million. The change in the allowance for expected credit losses is detailed below:

YEAR ENDED DECEMBER 31	2018
Balance at beginning of year	$ 7,985
Transitional adjustment on adoption of a new accounting standard (Note 2B)	2,471
Adjusted balance at beginning of year	10,456
Change in allowance, other than write-offs	2,179
Write-offs of contract assets	(1,442)
Balance at end of year	$ 11,193

The significant changes in the balances of trade receivables and contract assets are disclosed in Note 10B, while the information about the credit exposures is disclosed in Note 32B.

10. REVENUE

A) DISAGGREGATION OF REVENUE

The adoption of IFRS 15 in 2018 resulted in additional disclosures of financial information related to the disaggregation of revenue from contracts with customers. As such, the Company added details on 2018 revenues by geographic area and type of contracts, with a reconciliation between revenues from contracts with customers under the scope of IFRS 15 and total revenues.

The types of contracts presented are defined as follow:

Reimbursable and engineering service contracts: Under reimbursable contracts, the Company charges the customer for the actual cost incurred plus a mark-up that could take various forms such as a fixed-fee per unit, a percentage of costs incurred or an incentive fee based on achieving certain targets, performance factors or contractual milestones. Reimbursable contracts also include unit-rate contracts for which a fixed amount per quantity is charged to the customer, and reimbursable contracts with a cap. Engineering service contracts include: i) time and material agreements based on hourly rates and fixed-price lump-sum contracts with limited procurement or construction risks; and ii) O&M contracts.

EPC fixed-price contracts: Under EPC fixed-price contracts, the Company completes the work required for the project at a lump-sum price. Before entering into such contracts, the Company estimates the total cost of the project, plus a profit margin. The Company's actual profit margin may vary based on its ability to achieve the project requirements at above or below the initial estimated costs.

The following table presents revenues by geographic area according to project location:

YEAR ENDED DECEMBER 31	2018		
	REVENUE FROM CONTRACTS WITH CUSTOMERS	OTHER REVENUE	TOTAL
Americas:			
Canada	**$ 2,729,692**	**$ 232,864**	**$ 2,962,556**
United States	**1,641,622**	**23,940**	**1,665,562**
Latin America	**302,412**	**–**	**302,412**
Middle East and Africa:			
Saudi Arabia	**1,020,724**	**–**	**1,020,724**
Other Middle East countries	**957,560**	**4,896**	**962,456**
Africa	**457,609**	**11,517**	**469,126**
Asia Pacific:			
Australia	**511,288**	**–**	**511,288**
Other	**227,604**	**26**	**227,630**
Europe:			
United Kingdom	**1,648,358**	**10,064**	**1,658,422**
Other	**303,539**	**291**	**303,830**
	$ 9,800,408	**$ 283,598**	**$ 10,084,006**

The following table presents revenues by type of contracts:

YEAR ENDED DECEMBER 31	2018		
	REIMBURSABLE AND ENGINEERING SERVICE CONTRACTS	EPC FIXED-PRICE CONTRACTS	TOTAL
Mining & Metallurgy	**$ 152,185**	**$ 323,208**	**$ 475,393**
Oil & Gas	**1,809,610**	**711,109**	**2,520,719**
Nuclear	**903,408**	**7,898**	**911,306**
Clean Power	**123,800**	**253,378**	**377,178**
Thermal Power	**20,047**	**46,333**	**66,380**
Infrastructure	**1,047,865**	**1,178,297**	**2,226,162**
EDPM	**3,204,934**	**–**	**3,204,934**
Revenue from contracts with customers – E&C segments	**$ 7,261,849**	**$ 2,520,223**	**$ 9,782,072**
Revenue from E&C investments accounted for by the equity method			**37,277**
Revenue from contracts with customers – Capital segment			**18,336**
Other revenue – Capital segment			**246,321**
			$ 10,084,006

10. REVENUE (CONTINUED)

B) CONTRACT BALANCES

	DECEMBER 31 2018	DECEMBER 31 2017
Trade receivables (Note 9A)	**$ 1,503,824**	$ 1,445,859
Contract assets (Note 9B)	**1,751,068**	–
Contract liabilities	**$ 972,959**	$ –

Trade receivables are rights to consideration in exchange of goods or services that the Company has transferred to a customer when such rights are only conditional on the passage of time. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The acquisition of Linxon in 2018 resulted in an increase of trade receivables of $9.4 million (see Note 6A).

Contract assets are rights to consideration in exchange of goods or services that the Company has transferred to a customer when such rights are not only conditional on passage of time, but on something else, such as the satisfaction of further performance obligations under the contract. Contract assets are initially recognized for revenue earned from E&C activities and are usually derecognized when they become trade receivables. In 2018, the increase of contract assets is mainly due to the adoption of IFRS 15 using the modified retrospective method (see Note 2B) and the acquisition of Linxon, which resulted in an increase of contract assets of $14.2 million as at September 1, 2018 (see Note 6A).

Contracts liabilities arise from E&C activities and represent the cumulative amounts received and contractually receivable from customers by the Company that exceed the right to consideration resulting from the Company's performance under a given contract. In 2018, the increase of contract liabilities is mainly due to the adoption of IFRS 15 using the modified retrospective method (see Note 2B) and the acquisition of Linxon, which resulted in an increase of contract liabilities of $9.8 million as at September 1, 2018 (see Note 6A).

The following table presents the amount of revenue recognized from:

YEAR ENDED DECEMBER 31	2018
Amounts included in contract liabilities at the beginning of the year	**$ 767,037**
Performance obligations satisfied (or partially satisfied) in previous years	**$ 143,581**

As a significant portion the Company's revenues are recognized over time, the contractual terms which determine when consideration becomes receivable from the customer, such as upon the achievement of certain milestones, the Company's reaching such milestones earlier or later than anticipated and the ability to obtain downpayments on contracts will influence, among other factors, the balance of trade receivables, contract assets and contract liabilities on a given contract.

C) REMAINING PERFORMANCE OBLIGATIONS

The amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) at December 31, 2018, on all contracts with customers, is expected to be recognized in revenues as follows: 2019 – $5.8 billion, 2020 – $2.3 billion, 2021 – $1.2 billion, and thereafter – $5.6 billion. It should be noted that these amounts exclude any estimated amounts of variable consideration that are excluded from the transaction price.

11. INVENTORIES

	DECEMBER 31 2018	DECEMBER 31 2017
Raw materials	**$ 18,612**	$ 37,825
Work in progress	**31,620**	43,162
Finished goods	**53,973**	29,250
Inventories	**$ 104,205**	$ 110,237

The cost of inventories recognized by the Company as an expense during the year ended December 31, 2018 was $180.6 million (2017: $269.7 million). The amount of write-down of inventories recognized as an expense in the year ended December 31, 2018 was $12.7 million (2017: $nil).

12. OTHER CURRENT FINANCIAL ASSETS

	DECEMBER 31 2018	DECEMBER 31 2017 [1]
Retentions on client contracts	**$ –**	$ 277,675
Advances to suppliers, subcontractors and employees and deposits on contracts	**42,939**	40,748
Derivative financial instruments used for hedges – favourable fair value	**39,952**	37,967
Life insurance policies measured at FVTPL [2]	**5,903**	5,271
Current portion of receivables under service concession arrangements	**14,160**	–
Return of contingent consideration to be transferred to seller (Note 6A)	**5,671**	–
Recovery of costs expected from suppliers and subcontractors	**48,926**	1,278
Other	**89,740**	79,561
Other current financial assets	**$ 247,291**	$ 442,500

[1] An amount of $1.3 million of financial assets previously included in “Other” as at December 31, 2017 was reclassified to “recovery of costs expected from suppliers and subcontractors” to conform with the presentation made as at December 31, 2018.

[2] Fair value through profit or loss (“FVTPL”)

13. OTHER CURRENT NON-FINANCIAL ASSETS

	DECEMBER 31 2018	DECEMBER 31 2017
Income taxes and other taxes receivable	**$ 262,470**	$ 329,711
Prepaid expenses and other	**142,349**	121,166
Other current non-financial assets	**$ 404,819**	$ 450,877

14. PROPERTY AND EQUIPMENT

	BUILDINGS	COMPUTER EQUIPMENT	OFFICE FURNITURE	MACHINERY	OTHER	TOTAL
Gross carrying amount						
Balance as at January 1, 2018	**$ 89,639**	**$ 374,821**	**$ 150,180**	**$ 83,986**	**$ 209,254**	**$ 907,880**
Additions	**18,122**	**69,892**	**12,655**	**69,069**	**13,528**	**183,266**
Additions through a business combination	**–**	**–**	**–**	**490**	**–**	**490**
Effect of foreign currency exchange differences	**5,874**	**9,794**	**2,278**	**7,858**	**16,155**	**41,959**
Disposals / retirements / salvage	**(10,887)**	**(20,837)**	**(6,351)**	**(14,343)**	**(4,143)**	**(56,561)**
Balance as at December 31, 2018	**$ 102,748**	**$ 433,670**	**$ 158,762**	**$ 147,060**	**$ 234,794**	**$ 1,077,034**
Accumulated depreciation						
Balance as at January 1, 2018	**26,254**	**274,278**	**107,987**	**12,633**	**72,590**	**493,742**
Depreciation expense	**21,417**	**40,942**	**16,466**	**22,346**	**16,927**	**118,098**
Effect of foreign currency exchange differences	**2,140**	**9,366**	**1,204**	**2,224**	**5,309**	**20,243**
Disposals / retirements / salvage	**(9,670)**	**(12,786)**	**(4,676)**	**(8,803)**	**(1,733)**	**(37,668)**
Balance as at December 31, 2018	**$ 40,141**	**$ 311,800**	**$ 120,981**	**$ 28,400**	**$ 93,093**	**$ 594,415**

14. PROPERTY AND EQUIPMENT (CONTINUED)

	BUILDINGS	COMPUTER EQUIPMENT	OFFICE FURNITURE	MACHINERY	OTHER	TOTAL
Gross carrying amount						
Balance as at January 1, 2017	$ 131,644	$ 325,518	$ 142,009	$ 105,128	$ 125,544	$ 829,843
Additions	11,773	37,565	8,878	15,739	66,395	140,350
Additions through business combinations	16,765	39,721	11,177	–	26,787	94,450
Effect of foreign currency exchange differences	(3,099)	(3,643)	(1,179)	(1,535)	(3,256)	(12,712)
Disposals / retirements / salvage	(67,444)	(24,340)	(10,705)	(35,346)	(6,216)	(144,051)
Balance as at December 31, 2017	$ 89,639	$ 374,821	$ 150,180	$ 83,986	$ 209,254	$ 907,880
Accumulated depreciation						
Balance as at January 1, 2017	55,101	272,757	104,633	31,641	67,378	531,510
Depreciation expense	8,248	28,354	13,614	15,519	10,930	76,665
Effect of foreign currency exchange differences	(2,174)	(3,019)	(616)	76	(795)	(6,528)
Disposals / retirements / salvage	(34,921)	(23,814)	(9,644)	(34,603)	(4,923)	(107,905)
Balance as at December 31, 2017	$ 26,254	$ 274,278	$ 107,987	$ 12,633	$ 72,590	$ 493,742
Net book value:						
As at December 31, 2018	**$ 62,607**	**$ 121,870**	**$ 37,781**	**$ 118,660**	**$ 141,701**	**$ 482,619**
As at December 31, 2017	$ 63,385	$ 100,543	$ 42,193	$ 71,353	$ 136,664	$ 414,138

An amount of $17.5 million as at December 31, 2018 (2017: $31.5 million) of property and equipment was not being depreciated as the assets were under construction. The non-cash additions of property and equipment amounted to $30.8 million in the year ended December 31, 2018 (2017: $15.7 million).

15. DISPOSAL OF THE HEAD OFFICE BUILDING

On June 22, 2017, SNC-Lavalin announced that it completed the sale of its Montreal head office building and land located on René-Lévesque Boulevard West for $173.3 million to GWL Realty Advisors on behalf of institutional clients. Concurrently, SNC-Lavalin entered into a 20-year lease for the building.

Net gain on disposal of the head office building

YEAR ENDED DECEMBER 31	2017
Consideration received	$ 173,288
Carrying amount of the head office building and land	(22,781)
Deferred tenant allowance	(31,017)
Deferred gain on disposal of the head office building	(2,905)
Disposition-related costs	(1,484)
Gain on disposal of the head office building	115,101
Income taxes	(13,570)
Net gain on disposal of the head office building	**$ 101,531**

16. GOODWILL

The following table details a reconciliation of the carrying amount of the Company's goodwill:

Balance at January 1, 2017	$ 3,268,214
Net foreign currency exchange differences	(164,494)
Goodwill arising from the acquisition of Atkins completed in the year	3,169,727
Goodwill arising from the acquisition of DTS completed in the year (Note 6C)	49,993
Balance at December 31, 2017	6,323,440
Net foreign currency exchange differences	**279,943**
Additional amount recognized from the adjustments to the final allocation of purchase price of Atkins	**11,358**
Amount derecognized from the adjustments to the final allocation of purchase price of DTS	**(20,662)**
Goodwill arising from the acquisition of Linxon completed in the year (Note 6A)	**16,059**
Impairment of goodwill	**(1,240,415)**
Balance at December 31, 2018	**$ 5,369,723**

For the purpose of annual impairment testing, goodwill is allocated to CGU or groups of CGU, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises.

Following the Company's new organizational structure that took effect on January 1, 2018 (see Note 2C), the Company's goodwill was reallocated to the following cash-generating units ("CGU") and groups of CGU as follows:

CGU OR GROUP OF CGU	**DECEMBER 31 2018**	DECEMBER 31 2017 [(1)]
Mining & Metallurgy	**$ 92,799**	$ 96,257
Oil & Gas	**1,776,326**	2,831,472
Infrastructure	**93,668**	93,720
O&M	**53,132**	53,134
Nuclear	**662,254**	645,797
Clean Power [(2)]	**31,057**	14,221
EDPM	**2,660,487**	2,588,839
	$ 5,369,723	$ 6,323,440

(1) Comparative figures have been revised (see Note 2C)

(2) Includes goodwill from Linxon (see Note 6A)

As at October 31, 2018, goodwill was impaired by $1.24 billion in the Oil & Gas CGU. Such CGU corresponds to a reportable segment. The impairment reflects macro challenges as well as some Company specific headwinds, which are impacting its ability to grow. Inter-governmental relations between Canada and Saudi Arabia, together with unpredictable commodity prices and uncertain client investment plans, have led to deterioration in its near-term prospects. The recoverable amount of this CGU was determined using the value in use approach as at October 31, 2018, based on a terminal growth rate of 2.5% and a discount rate of 11.3%. As at October 31, 2017, the recoverable amount of this same CGU was determined using the value in use approach, based on a terminal growth rate of 2.5% and a discount rate of 12.6%, and exceeded its carrying amount by $309.4 million. Assuming all other assumptions remained the same, a 130-basis point decrease in the terminal growth rate or a 90-basis point increase in the discount rate would have caused the Oil & Gas CGU's carrying amount to be comparable to its recoverable amount as at October 31, 2017.

In 2018, approximately 50% of the Company's goodwill balance is allocated to the EDPM CGU, following the acquisition of Atkins in July 2017 and Data Transfer Solutions LLC in October 2017. The recoverable amount of this CGU, based on a terminal growth rate of 2.5% and a discount rate of 10.5%, exceeded its carrying amount by $133.8 million as at October 31, 2018. Assuming all other assumptions remain the same, a 42-basis point decrease in the terminal growth rate or a 45-basis point increase in the discount rate would have caused the EDPM CGU's carrying amount to be comparable to its recoverable amount as at that date.

No reasonable change in the key assumptions used for the other CGU or group of CGU would have resulted in an impairment loss as at October 31, 2018 and 2017. Except for the Oil & Gas CGU, the recoverable amount of other CGU or group of CGU was determined based on the value in use approach. Under this approach, the following assumptions were used: cash flows beyond the long-term forecast were extrapolated using a growth rate of 2.5% in 2018 (2017: 2.5%) and discount rates ranging from 10.5% to 12.8% have been used in 2018 (2017: from 10.3% to 12.6%).

As at October 31, 2017, goodwill was not considered to be impaired.

17. INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

The following tables detail a reconciliation of the carrying amount of intangible assets related to business combinations:

	REVENUE BACKLOG	CUSTOMER RELATIONSHIPS	TRADEMARKS	TOTAL
Gross carrying amount				
Balance as at January 1, 2018	**$ 324,707**	**$ 969,963**	**$ 131,547**	**$ 1,426,217**
Additions through a business combination (Note 6C)	**2,466**	**15,410**	**7,269**	**25,145**
Derecognition of intangible assets	**(135,994)**	**–**	**–**	**(135,994)**
Effect of foreign currency exchange differences	**15,041**	**22,940**	**2,113**	**40,094**
Balance as at December 31, 2018	**$ 206,220**	**$ 1,008,313**	**$ 140,929**	**$ 1,355,462**
Accumulated depreciation				
Balance as at January 1, 2018	**164,046**	**139,517**	**32,817**	**336,380**
Amortization expense	**70,888**	**108,289**	**27,294**	**206,471**
Derecognition of intangible assets	**(135,994)**	**–**	**–**	**(135,994)**
Effect of foreign currency exchange differences	**7,474**	**17,024**	**3,521**	**28,019**
Balance as at December 31, 2018	**$ 106,414**	**$ 264,830**	**$ 63,632**	**$ 434,876**

	REVENUE BACKLOG	CUSTOMER RELATIONSHIPS	TRADEMARKS	TOTAL
Gross carrying amount				
Balance as at January 1, 2017	$ 137,666	$ 238,001	$ 29,936	$ 405,603
Additions through a business combination (Note 6B)	194,073	740,440	104,526	1,039,039
Effect of foreign currency exchange differences	(7,032)	(8,478)	(2,915)	(18,425)
Balance as at December 31, 2017	$ 324,707	$ 969,963	$ 131,547	$ 1,426,217
Accumulated depreciation				
Balance as at January 1, 2017	117,113	80,203	14,123	211,439
Amortization expense	54,203	64,954	19,735	138,892
Effect of foreign currency exchange differences	(7,270)	(5,640)	(1,041)	(13,951)
Balance as at December 31, 2017	$ 164,046	$ 139,517	$ 32,817	$ 336,380
Net book value:				
As at December 31, 2018	**$ 99,806**	**$ 743,483**	**$ 77,297**	**$ 920,586**
As at December 31, 2017	$ 160,661	$ 830,446	$ 98,730	$ 1,089,837

18. OTHER NON-CURRENT FINANCIAL ASSETS

	DECEMBER 31 2018	DECEMBER 31 2017
Derivative financial instruments related to share unit plans – favourable fair value (Note 24C)	**$ –**	$ 12,700
Other derivative financial instruments – favourable fair value	**5,981**	9,454
Other	**24,042**	22,167
Other non-current financial assets	**$ 30,023**	$ 44,321

19. OTHER NON-CURRENT NON-FINANCIAL ASSETS

	DECEMBER 31 2018	DECEMBER 31 2017 [1]
Post-employment benefit assets (Note 34)	**$ 27,893**	$ 24,171
E&C investments accounted for by the equity method	**69,847**	58,195
Other	**33,622**	22,444
Other non-current non-financial assets	**$ 131,362**	$ 104,810

(1) As at December 31, 2017, "E&C investments accounted for by the equity method" of $58.2 million were included in "Other" in "Other non-current non-financial assets".

E&C investments accounted for by the equity method – joint ventures

SNC-Lavalin carries out part of its E&C investment activity through joint ventures which are accounted for by the equity method. The aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities, revenues and expenses related to such joint ventures are summarized below:

YEARS ENDED DECEMBER 31	2018	2017
Income statements		
Revenues (at 100%)	**$ 1,426,790**	$ 1,391,043
Interest income (at 100%)	**$ 3,042**	$ 1,205
Interest expense (at 100%)	**$ 3,831**	$ 1,504
Depreciation and amortization (at 100%)	**$ 406**	$ 512
Income tax expense (at 100%)	**$ 266**	$ 6

YEARS ENDED DECEMBER 31	2018	2017
Statements of comprehensive income		
Net income (at 100%)	**$ 102,229**	$ 37,946
Other comprehensive income (at 100%)	**–**	–
Total comprehensive income (at 100%)	**$ 102,229**	$ 37,946

YEARS ENDED DECEMBER 31	2018	2017
Company's share of net income of E&C investments based on its ownership interest	**$ 37,277**	$ 14,816
Company's net income from E&C investments included in its income statement	**$ 37,277**	$ 14,816

	DECEMBER 31 2018	DECEMBER 31 2017
Statements of financial position		
Cash and cash equivalents (at 100%)	**$ 237,457**	$ 195,040
Other current assets (at 100%)	**356,034**	382,276
Non-current assets (at 100%)	**117,131**	94,980
Total assets (at 100%)	**710,622**	672,296
Trade payables (at 100%)	**261,987**	378,061
Other current financial liabilities (at 100%)	**170,119**	72,283
Other current non-financial liabilities (at 100%)	**6,849**	5,546
Other non-current financial liabilities (at 100%)	**40,640**	25,385
Other non-current non-financial liabilities (at 100%)	**1,735**	1,613
Total liabilities (at 100%)	**481,330**	482,888
Net assets (liabilities) (at 100%)	**$ 229,292**	$ 189,408
Company's carrying value of E&C investments included in its statement of financial position	**$ 69,847**	$ 58,195

E&C investments accounted for by the equity method - associates

The summary tables below provide supplementary information in respect of E&C investments classified as associates:

YEARS ENDED DECEMBER 31	2018	2017
Statements of comprehensive income		
Revenues (at 100%)	**$ 166,333**	$ 109,362
Expenses (at 100%)	**166,147**	121,320
Net income (loss) (at 100%)	**186**	(11,958)
Other comprehensive income (at 100%)	**–**	–
Total comprehensive income (loss) (at 100%)	**$ 186**	$ (11,958)
Company's share of net income of E&C investments based on its ownership interest	**$ –**	$ –
Company's share of net income from E&C investments included in its income statement	**$ –**	$ 95

	DECEMBER 31 2018	DECEMBER 31 2017
Statements of financial position		
Current assets (at 100%)	**$ 36,604**	$ 34,162
Non-current assets (at 100%)	**3,524**	2,844
Total assets (at 100%)	**40,128**	37,006
Current liabilities (at 100%)	**31,165**	27,432
Non-current liabilities (at 100%)	**1,248**	1,129
Total liabilities (at 100%)	**32,413**	28,561
Net assets (at 100%)	**$ 7,715**	$ 8,445
Company's carrying value of E&C investments included in its statement of financial position	**$ –**	$ –

20. OTHER CURRENT FINANCIAL LIABILITIES

	DECEMBER 31 2018	DECEMBER 31 2017
Commitments to invest in Capital investments accounted for by the equity and cost methods (Note 5C)	**$ 108,312**	$ 98,050
Retentions on supplier contracts	**112,679**	128,240
Balance of purchase price payable relating to acquisition of businesses	**1,808**	1,867
Derivative financial instruments used for hedges – unfavourable fair value	**59,592**	20,775
Consideration payable related to the disposal of E&C businesses	**–**	15,150
Derivative financial instruments related to share unit plans – unfavourable fair value (Note 24C)	**662**	–
Other	**15,648**	642
Other current financial liabilities	**$ 298,701**	$ 264,724

21. OTHER CURRENT NON-FINANCIAL LIABILITIES

	DECEMBER 31 2018	DECEMBER 31 2017
Income taxes and other taxes payable	**$ 343,772**	$ 467,312
Share unit plans' liabilities (Note 24C)	**74,790**	101,316
Other	**6,299**	15,474
Other current non-financial liabilities	**$ 424,861**	$ 584,102

22. SHORT-TERM DEBT AND LONG-TERM DEBT

As at December 31, 2018 and 2017, the Company's short-term debt and long-term debt included in its consolidated statement of financial position were as follows:

A) RECOURSE DEBT

	DECEMBER 31 2018	DECEMBER 31 2017
Recourse debt:		
Revolving Facility (i)	**$ 466,923**	$ 318,757
Term Loan (ii)	**498,809**	–
Series 2 Debentures (iii)	**149,934**	–
Series 3 Debentures (iii)	**174,485**	–
Series 4 Debentures (iii)	**199,144**	–
Series 5 Debentures (iii)	**149,866**	–
2019 Debentures (iv)	**349,864**	349,609
2020 Debentures (v)	**298,995**	298,787
Term Facility (vi)	**–**	378,386
Total recourse short-term debt and long-term debt	**2,288,020**	1,345,539
Less: recourse short-term debt	**1,116,587**	318,757
Recourse long-term debt	**$ 1,171,433**	$ 1,026,782

B) LIMITED RECOURSE DEBT

	DECEMBER 31 2018	DECEMBER 31 2017
Limited recourse debt:		
CDPQ Loan (vii)	**$ 980,303**	$ 1,475,177
Limited recourse long-term debt	**$ 980,303**	$ 1,475,177

C) NON-RECOURSE DEBT (UNSECURED OR SECURED ONLY BY CAPITAL OR E&C INVESTMENT'S SPECIFIC ASSETS)

	DECEMBER 31 2018	DECEMBER 31 2017
Non-recourse debt:		
Senior bonds – InPower BC General Partnership (viii)	**$ 292,812**	$ 292,179
Credit facility – InPower BC General Partnership (viii)	**47,745**	5,219
Senior Secured Notes from an E&C investment (ix)	**42,769**	–
Unsecured Loan of Linxon (x)	**7,571**	–
Other	**8,808**	15,566
Total non-recourse short-term debt and long-term debt	**399,705**	312,964
Less: non-recourse short-term debt	**60,168**	15,566
Non- recourse long-term debt	**$ 339,537**	$ 297,398

i. The Company's unsecured revolving credit facility (the "Revolving Facility"), which is part of the Company's Credit Agreement, comprises two tranches: (i) tranche A is for an amount of $2,000 million (2017: $2,000 million); and (ii) tranche B is for an amount of $600 million (2017: $750 million). Borrowings under tranche A may be obtained in the form of: (i) prime rate loans; (ii) acceptances; (iii) US base rate loans; (iv) Libor loans in US dollars, Euros and British pounds; and (v) non-financial, financial or documentary letters of credit. Borrowings under tranche B may be obtained only in the form of non-financial or documentary letters of credit. The Revolving Facility maturity date is May 15, 2022 (2017: May 15, 2021) or such other date as may be agreed pursuant to extension provisions of the Credit Agreement. The aggregate outstanding amount of uncommitted bilateral letters of credit allowed under the Credit Agreement is $3,000 million (2017: $2,500 million).

22. SHORT-TERM DEBT AND LONG-TERM DEBT (CONTINUED)

As at December 31, 2018 and 2017, the cash draws and letters of credit outstanding under the Company's Revolving Facility were as follows:

AT DECEMBER 31, 2018	COMMITTED	CASH DRAWS	LETTERS OF CREDIT OUTSTANDING	UNUSED
Revolving Facility	**$ 2,600,000**	**$ 474,570**	**$ 74,072** (1)	**$ 2,051,358**

(1) Includes $13.2 million of financial letters of credit.

AT DECEMBER 31, 2017	COMMITTED	CASH DRAWS	LETTERS OF CREDIT OUTSTANDING	UNUSED
Revolving Facility	$ 2,750,000	$ 327,103	$ 73,657 (2)	$ 2,349,240

(2) Includes $4.8 million of financial letters of credit.

In addition, as at December 31, 2018 and 2017, $2,300.0 million (2017: $1,833.3 million) of uncommitted bilateral letters of credit were outstanding, of which $242.2 million (2017: $275.4 million) related to financial letters of credit.

ii. The Company's non-revolving term loan, which is part of the Company's Credit Agreement, is in the principal amount of $500 million (the "Term Loan"). Borrowings under the Term Loan were available by way of prime rate loans or acceptances. The Term Loan maturity date is April 30, 2023.

iii. These unsecured debentures are in the aggregate principal amount of $675 million and are divided in four series consisting of: (i) $150 million in floating rate Series 2 Debentures due in March 2019 (the "Series 2 Debentures"); (ii) $175 million in floating rate Series 3 Debentures due in March 2021 (the "Series 3 Debentures"); (iii) $200 million in 3.235% Series 4 Debentures due in March 2023 (the "Series 4 Debentures"); and (iv) $150 million in floating rate Series 5 Debentures due in June 2019 (the "Series 5 Debentures"). The Series 2, 3 and 5 Debentures bear interest at a rate equal to the 3-month CDOR plus an applicable margin.

iv. These unsecured debentures in the principal amount of $350 million bear interest at a rate of 6.19% and are due in July 2019 (the "2019 Debentures").

v. These unsecured debentures in the principal amount of $300 million bear interest at a rate of 2.689% and are due in November 2020 (the "2020 Debentures").

vi. The Company's non-revolving Term Facility, which was part of the Company's Credit Agreement, was comprised of three tranches: (i) tranche 1 was for an amount of £75 million; (ii) tranche 2 was for an amount of £75 million; and (iii) tranche 3 was for an amount of £150 million. Borrowings were obtained in the form of Libor loans in British pounds. As at December 31, 2018, borrowings under the Term Facility have been repaid in full.

vii. The CDPQ Loan is a limited recourse debt comprised of two tranches: i) tranche A which is a non-revolving term loan in an aggregate amount of $1,000 million; and ii) tranche B which was a non-revolving term loan in an aggregate amount of $500 million. Recourse is limited to specific circumstances of enforcement on or against the shares of SNC-Lavalin Highway Holdings Inc. ("Highway Holdings"), an indirect wholly-owned subsidiary of the Company holding shares of 407 International Inc. Each of tranche A and tranche B was available by way of a single drawdown by Highway Holdings. Borrowings under tranche A and tranche B bear interest at a base rate, which is the greater of: i) the CDOR rate; and ii) 0.9%, plus an applicable margin. In 2018, the Company repaid borrowings under tranche B of its CDPQ Loan in full. The maturity of tranche A of the CDPQ Loan is in 2024.

viii. The senior bonds of InPower BC General Partnership in the principal amount of $300 million bear interest at a rate of 4.471% and are due in 2033. The credit facility of InPower BC General Partnership in the principal amount of $63.2 million bear interest at a rate of 4.15% and is due in 2019. The senior bonds and the credit facility are secured by all assets of InPower BC General Partnership.

ix. The senior secured notes of a subsidiary of the Company are up to US$40.0 million (approximately CA$54.5 million) aggregate principal amount (the "Senior Secured Notes"), of which US$33.0 million (approximately CA$43.1 million) aggregate principal amount was issued in 2018. The Senior Secured Notes are due in 2026 and bear interest at a variable rate. The net proceeds from the issuance of the senior secured notes are used by the subsidiary of the Company to finance certain long-term assets associated to a BOO (Build-Own-Operate) contract.

22. SHORT-TERM DEBT AND LONG-TERM DEBT (CONTINUED)

x. In relation to the acquisition of Linxon by SNC-Lavalin in 2018 (see Note 6A), the holder of the non-controlling interest of 49% in Linxon granted an unsecured loan (the "Unsecured Loan") and provided an unsecured working capital revolving credit facility to Linxon. The loan in the principal amount of US$9.3 million (approximately CA$12.2 million) is an interest-free loan and is repayable in full on September 1, 2023. The working capital credit facility in a maximum aggregate amount of €30.0 million (approximately CA$46.7 million) bears interest at a variable rate and is repayable the latest on September 30, 2022.

D) REPAYMENT OF PRINCIPAL OF SHORT-TERM DEBT AND LONG-TERM DEBT

The future principal payments of SNC-Lavalin's recourse, limited recourse and non-recourse short-term and long-term debt are summarized below and reconciled to their net carrying amount:

AT DECEMBER 31, 2018	Recourse	Limited recourse	Non-recourse	Total
2019	$ 1,124,570	$ –	$ 62,207	$ 1,186,777
2020	300,000	–	24,122	324,122
2021	175,000	–	24,865	199,865
2022	–	–	25,664	25,664
2023	700,000	–	39,120	739,120
Thereafter	–	1,000,000	237,870	1,237,870
Total	$ 2,299,570	$ 1,000,000	$ 413,848	$ 3,713,418
Net unamortized deferred financing costs and unamortized discounts	(11,550)	(19,697)	(14,143)	(45,390)
Net carrying amount of short-term debt and long-term debt	$ 2,288,020	$ 980,303	$ 399,705	$ 3,668,028

23. PROVISIONS

	Pension and other post-employment benefits	Forecasted losses on certain contracts	Restructuring	Other [(1)]	Total
Balance at January 1, 2018	$ 632,174	$ 48,666	$ 52,519	$ 232,235	$ 965,594
Transitional adjustment on adoption of a new accounting standard (Note 2B) [(2)]	–	56,653	–	23,532	80,185
Adjusted balance at January 1, 2018	632,174	105,319	52,519	255,767	1,045,779
Additional provisions recognized in the year [(3)]	54,076	141,549	68,591	136,558	400,774
Amounts used during the year	(92,744)	(2,774)	(22,045)	(100,146)	(217,709)
Unused amounts reversed during the year	–	(69,039)	–	(49,591)	(118,630)
Remeasurement recognized in equity	(57,932)	–	–	–	(57,932)
Increase from the passage of time, effect of changes in discount rates and effect of foreign currency exchange differences	29,424	3,042	(563)	328	32,231
Increase in post-employment benefit assets (Note 19)	3,721	–	–	–	3,721
Balance at December 31, 2018	**$ 568,719**	**$ 178,097**	**$ 98,502**	**$ 242,916**	**$ 1,088,234**
Presented on the statement of financial position as follows:					
Current portion of provisions					**$ 381,848**
Non-current portion of provisions					**$ 706,386**

(1) Other provisions include mainly litigations, warranty provisions, environmental liabilities and other asset retirement obligations.

(2) Represents adjustments on forecasted losses on certain contracts and on provision for assurance-type warranty costs recognized upon adoption of IFRS 15

(3) Includes additional provisions from the acquisition of Linxon

23. PROVISIONS (CONTINUED)

The expected timing of outflows of economic benefits relating to the Company's provisions are as follows: i) most of the litigation provisions are expected to be resolved within the next 5 years; ii) forecasted losses on certain contracts are expected to be incurred over the period of a contract duration, usually up to 3 years; iii) most of the accrued restructuring costs are expected to be disbursed within the next 12 months; iv) warranty expenditures are expected to take place within the next 5 years; and v) most of the other provisions are expected to be resolved over the next 10 years. The main assumptions used to determine the provision for pension and other post-employment benefits and other information, including the expected level of future funding payments in respect of those arrangements, are given in Note 34.

24. SHARE CAPITAL

A) AUTHORIZED

The Company is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

The Board of Directors is authorized to issue such preferred shares in one or more series and to establish the number of shares in each series and the conditions attaching thereto, prior to their issue.

The share capital issued and outstanding of the Company consists only of fully paid common shares without nominal value. All common shares are equally eligible to receive dividends, subject to the prior rights of the holders of preferred shares. Each common share carries one vote at the shareholders' meeting of the Company.

Subject to the prior rights of the holders of preferred shares, upon the liquidation or dissolution of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, all the Company's assets available for payment or distribution to the holders of the common shares shall be paid or distributed equally, share for share, to the holders of such common shares.

B) STOCK OPTION PLAN

The main features of the stock option plan under which stock options were outstanding at December 31, 2018 are summarized below:

	2013 STOCK OPTION PLAN
Grant date	Sixth trading day following the approval by the Company's Board of Directors
Exercise price of stock options	The greater of: i) the average closing price for the five trading days preceding the grant date and ii) the closing price on the first trading day immediately preceding the grant date
Vesting of stock options	Graded vesting in three equal tranches: two years, three years and four years, respectively, after the grant date
Expiry of stock options	Six years after the grant date
Other provisions	In the event of cessation of employment, except in the event of death or if the optionee is eligible to retire, unvested options are cancelled immediately and vested options remain exercisable for a specified period not exceeding 30 days. In the event of death or if the optionee is eligible to retire, both vested and unvested options continue to run their normal course.

The table below presents the changes in the number of options outstanding in 2018 and 2017:

		2018		2017
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)
Options outstanding at beginning of year	**326,763**	**$ 40.98**	617,564	$ 39.81
Exercised [1]	**(65,897)**	**$ 40.98**	(251,402)	$ 38.69
Expired	**–**	**$ –**	(31,266)	$ 37.04
Forfeited	**–**	**$ –**	(8,133)	$ 38.07
Options outstanding at end of year	**260,866**	**$ 40.98**	326,763	$ 40.98

(1) The weighted average market price of the Company's common shares upon the exercise of stock options was $57.22 in 2018 ($54.93 in 2017).

24. SHARE CAPITAL (CONTINUED)

The table below summarizes information regarding the stock options outstanding and exercisable as at December 31, 2018.

			OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	STOCK OPTION PLAN	YEAR OF GRANT	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING OPTIONS' TERM (MONTHS)	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)
$40.98	2013	2013	260,866	4	$ 40.98	260,866	$ 40.98

As at December 31, 2018, 2,526,997 stock options remained available for future grants under the 2013 stock option plan (2017: 2,526,997 stock options).

The stock option compensation cost recorded in the year ended December 31, 2018 was $nil (2017: $0.1 million).

C) SHARE UNIT PLANS

As at December 31, 2018 and 2017, the Company had four share unit compensation plans for executives, namely the 2017 PSU plan, the 2014 PSU plan, the 2009 DSU plan, and the RSU plan, and a share unit compensation plan, the DSU plan, for members of the Board of Directors of SNC-Lavalin Group Inc.

The terms and conditions of the executive plans are summarized below:

	2009 DSU PLAN	RSU PLAN	2017 PSU PLAN AND 2014 PSU PLAN
Grant date	Date of approval by the Company's Board of Directors	Date of approval by the Company's Board of Directors	Date of approval by the Company's Board of Directors
Number of units	Determined at grant date, without any further changes	Determined at grant date, without any further changes	Subject to performance conditions, the number of units granted shall be adjusted depending on the total shareholder return compared to peers, as defined in the plan
Vesting of units	Units vest at a rate of 20% per year at the end of each calendar year following the grant date	Units vest in full three years following their grant date	Units vest in full at the end of the third calendar year following the grant date
Payment	Units are redeemable for cash by the Company within thirty days following the first anniversary of a participant's cessation of employment	Units are redeemable for cash by the Company no later than March 15th of the year following the end of the vesting period	Units are redeemable for cash by the Company no later than two and a half months after the end of the performance period of such award. Performance period means the period starting on January 1st of the calendar year during which the grant of such award was made and ending on the vesting date.
Redemption price	Average closing price per share on the Toronto Stock Exchange on the first anniversary of cessation of employment and the last trading day on the Toronto Stock Exchange of each of the 12 weeks preceding that date	Average closing price per share on the Toronto Stock Exchange on the five trading days preceding the vesting date	Average closing price per share on the Toronto Stock Exchange on the five trading days preceding the vesting date
Forfeiture	If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made	If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made	If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made
Other provisions	The units vest immediately in the event of death or if a participant is retiring, with payment being made on the date of the first anniversary following the participant's last day of employment	In the event of death or retirement of a participant before the end of the vesting period, the units vest on a *pro rata* basis, with payment being made no later than March 15th of the year following the event	In the event of death or retirement of a participant before the end of the vesting period, the units vest on a *pro rata* basis, with payment being made no later than two and a half months following the event

24. SHARE CAPITAL (CONTINUED)

The terms and conditions of the DSU plan are as follows: each member of the Board of Directors of SNC-Lavalin Group Inc. (the "member") receives an annual retainer consisting of: (a) a lump sum credited in DSU plan units, and (b) a cash award payment. Each member may elect to receive 100% of the cash award payment, as well as 100% of their committee chair retainer, meeting fees and travel fees, if applicable, in either cash or DSU plan units. DSU plan units track the price of SNC-Lavalin's common shares on the Toronto Stock Exchange. They accumulate during a member's term in office and are redeemed in cash when the member leaves the Board of Directors. For the purposes of redeeming DSU plan units, the value of a unit on any given date is equivalent to the average of the closing price for a common share on the Toronto Stock Exchange for the five trading days immediately prior to such date. DSU plan units are credited on a quarterly basis and do not carry voting rights. Furthermore, additional DSU plan units accumulate as dividend equivalents whenever cash dividends are paid on common shares.

The table below presents the number of granted share units and the weighted average fair value per granted share unit for the years ended December 31, 2018 and 2017:

	2018		2017	
	NUMBER OF GRANTED SHARE UNITS	WEIGHTED AVERAGE FAIR VALUE PER SHARE UNIT (IN DOLLARS)	NUMBER OF GRANTED SHARE UNITS	WEIGHTED AVERAGE FAIR VALUE PER SHARE UNIT (IN DOLLARS)
2017 PSU plan	**386,272**	**$ 56.45**	406,668	$ 54.59
RSU plan	**556,931**	**$ 56.41**	356,557	$ 54.59
DSU plan	**51,253**	**$ 53.09**	32,988	$ 55.50
2009 DSU plan	**69,965**	**$ 56.45**	–	$ –

In 2015, the Company entered into derivative financial instruments with investment grade financial institutions to limit the Company's exposure to the variability of the units caused by fluctuations in its share price. The derivative financial instruments, the fair value of which fluctuates in accordance with the movement in the Company's share price, are required to be classified as FVTPL. As such, they are measured at fair value on the consolidated statement of financial position under "Other non-current financial assets" (see Note 18) if the fair value of a derivative financial instrument is favourable or under "Other non-current financial liabilities" if the fair value of a derivative financial instrument is unfavourable.

The compensation expense related to the share unit plans was $45.6 million for the year ended December 31, 2018 (2017: $41.9 million).

The total intrinsic value of the share unit plans' liabilities for which the participants' right to cash vested was $34.7 million as at December 31, 2018 (2017: $42.5 million), while the share unit plans' liabilities amounted to $74.8 million as at December 31, 2018 (2017: $101.3 million).

D) REDEMPTION OF SHARES

In 2018, the Company announced that it had filed a notice to renew, for a 12-month period, its normal course issuer bid, which expired on June 5, 2018. In the notice, SNC-Lavalin stated that a maximum of 1,500,000 common shares may be purchased for cancellation, on the open market. Purchases may commence on June 6, 2018 and will terminate no later than June 5, 2019. For the period from June 6, 2017 to June 5, 2018, the number of common shares subject to the issuer bid was 1,500,000 common shares.

There was no redemption of shares in 2018 and 2017.

E) WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES – BASIC AND DILUTED

The weighted average number of outstanding shares in 2018 and 2017 used to calculate the basic and diluted earnings per share were as follows:

AT DECEMBER 31 (IN THOUSANDS)	2018	2017
Weighted average number of outstanding shares – basic	**175,541**	162,910
Dilutive effect of stock options	**–**	119
Weighted average number of outstanding shares – diluted	**175,541**	163,029

In 2018, 260,866 outstanding stock options have not been included in the computation of diluted loss per share because they were anti-dilutive. In 2017, all outstanding stock options have been included in the computation of diluted earnings per share.

F) DIVIDENDS

During the year ended December 31, 2018, the Company recognized as distributions to its equity shareholders dividends of $201.5 million or $1.148 per share (2017: $177.9 million or $1.092 per share).

25. OTHER COMPONENTS OF EQUITY

The Company has the following elements, net of income taxes, within its other components of equity at December 31, 2018 and 2017:

	DECEMBER 31 2018	DECEMBER 31 2017
Exchange differences on translating foreign operations	$ 505,297	$ 266,497
Available-for-sale financial assets	–	8,874
Cash flow hedges	(7,989)	(566)
Share of other comprehensive income of investments accounted for by the equity method	1,891	3,169
Other components of equity	$ 499,199	$ 277,974

- Exchange differences on translating foreign operations component represents exchange differences relating to the translation from the functional currencies of the Company's foreign operations into Canadian dollars. On disposal of a foreign operation, the cumulative translation differences are reclassified to net income as part of the gain or loss on disposal. Exchange differences also include gains and losses on hedging instruments, if any, relating to the effective portion of hedges of net investments of foreign operations, which are reclassified to net income on the disposal of the foreign operation.
- Prior to January 1, 2018, Available-for-sale financial assets component arose upon the revaluation of available-for-sale financial assets. When a revalued financial asset was sold, the portion of the component that related to that financial asset, and was effectively realized, was recognized in net income. When a revaluated financial asset was impaired, the portion of the component that related to that financial asset was recognized in net income.
- Cash flow hedges component represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in net income when the hedged transaction impacts net income, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.
- Share of other comprehensive income (loss) of investments accounted for by the equity method component represents the Company's share of the other comprehensive income (loss) from its investments accounted for by the equity method.

25. OTHER COMPONENTS OF EQUITY (CONTINUED)

A) ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME

The following table provides a reconciliation of each element of other components of equity for the years ended December 31, 2018 and 2017:

YEARS ENDED DECEMBER 31	2018	2017
Exchange differences on translating foreign operations:		
Balance at beginning of year	**$ 266,497**	$ 389,726
Transitional adjustment on adoption of a new accounting standard (Note 2B)	**14,322**	–
Current year gains (losses)	**241,697**	(112,979)
Reclassification to net income	**678**	(3,309)
Net investment hedge – current year losses	**(17,897)**	(6,941)
Balance at end of year	**505,297**	266,497
Available-for-sale financial assets:		
Balance at beginning of year	**8,874**	2,384
Transitional adjustment on adoption of a new accounting standard (Note 2B)	**(8,874)**	–
Current year gains [(1)]	**–**	9,574
Income taxes relating to current year gains	**–**	(5,744)
Reclassification to net income [(1)]	**–**	2,660
Balance at end of year	**–**	8,874
Cash flow hedges:		
Balance at beginning of year	**(566)**	6,695
Current year gains	**7,196**	4,575
Income taxes relating to current year gains	**(9,668)**	(429)
Reclassification to net income	**(16,655)**	(15,819)
Income taxes relating to amounts reclassified to net income	**11,704**	1,721
Reclassification to goodwill (Note 6B)	**–**	2,691
Balance at end of year	**(7,989)**	(566)
Share of other comprehensive income (loss) of investments accounted for by the equity method:		
Balance at beginning of year	**3,169**	(39,788)
Current year share	**(1,904)**	4,214
Income taxes relating to current year share	**505**	(1,040)
Reclassification to net income	**165**	53,464
Income taxes relating to amounts reclassified to net income	**(44)**	(13,681)
Balance at end of year	**1,891**	3,169
Other components of equity	**$ 499,199**	$ 277,974

(1) In 2017, the gain arising on derivatives designated as hedging instruments in fair value hedges amounted to $2.7 million and the loss arising on adjustments for the hedged item attributable to hedged risk in a designated fair value hedge accounting relationship amounted to $2.7 million.

25. OTHER COMPONENTS OF EQUITY (CONTINUED)

B) ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME

Remeasurement recognized in other comprehensive income

The following table provides changes in the cumulative amount of remeasurement gains (losses) recognized in other comprehensive income relating to defined benefit pension plans and other post-employment benefits for the years ended December 31, 2018 and 2017:

YEARS ENDED DECEMBER 31	2018			2017		
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at January 1	**$ (52,176)**	**$ 8,278**	**$ (43,898)**	$ (74,020)	$ 10,096	$ (63,924)
Remeasurement recognized during the year:						
Defined benefit pension plans	**(55,851)**	**9,026**	**(46,825)**	21,807	(3,345)	18,462
Other post-employment benefits	**(2,081)**	**1,302**	**(779)**	37	1,527	1,564
	(57,932)	**10,328**	**(47,604)**	21,844	(1,818)	20,026
Cumulative amount at December 31	**$ (110,108)**	**$ 18,606**	**$ (91,502)**	$ (52,176)	$ 8,278	$ (43,898)

Financial assets at fair value through other comprehensive income

YEAR ENDED DECEMBER 31	2018		
	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at January 1	**$ –**	**$ –**	**$ –**
Gains (losses) recognized during the year	**(1)**	**49**	**48**
Cumulative amount at December 31	**$ (1)**	**$ 49**	**$ 48**

26. ACQUISITION OF NON-CONTROLLING INTEREST

In 2017, SNC-Lavalin signed an agreement to acquire the non-controlling interest of Saudi Arabia Kentz Co. LLC for total cash consideration of US$45.8 million (CA$59.5 million) and to introduce a new shareholder for this entity, ultimately increasing SNC-Lavalin's ownership interest in this subsidiary from 49% to 75%.

Excess of the consideration paid over the carrying amount

YEAR ENDED DECEMBER 31	2017
Consideration paid	$ 59,499
Carrying amount of the acquired non-controlling interest	(23,740)
Excess of the consideration paid over the carrying amount before income taxes	35,759
Income taxes	–
Excess of the consideration paid over the carrying amount net of income taxes	**$ 35,759**

The excess of the consideration paid over the carrying amount of the acquired non-controlling interest of $35.8 million is included in "Retained earnings" in the Company's consolidated statement of changes in equity for the year ended December 31, 2017.

The acquisition of the prior shareholder's shareholdings in Saudi Arabia Kentz Co. LLC resulted in the derecognition of non-controlling interest in the Company's subsidiary. Based on the contractual agreements with the new shareholder, the Company consolidates the results of this entity in full from the date of such transaction.

27. CORPORATE SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31	2018	2017 [1]
Selling expenses	**$ 1,827**	$ 5,600
General and administrative expenses	**119,467**	125,006
Corporate selling, general and administrative expenses	**$ 121,294**	$ 130,606

[1] Comparative figures have been revised (see Note 2C)

28. RESTRUCTURING COSTS

The Company launched its "Operational Excellence" program in 2016, a program whose objective is to sustain a culture of continuous improvement. Operational Excellence is an approach that will make the Company more agile, customer-focused and successful. Operational Excellence is a long-term, structured approach that focuses on improving every aspect of the business. Such efforts aimed at optimizing the Company's structure might result in a reduction of workforce.

The Company incurred $68.6 million of restructuring costs in 2018 (2017: $26.4 million).

The restructuring costs recognized in 2018 and 2017 were mainly for severances.

29. NET FINANCIAL EXPENSES

YEARS ENDED DECEMBER 31	2018			2017		
	FROM E&C	FROM CAPITAL INVESTMENTS	TOTAL	FROM E&C	FROM CAPITAL INVESTMENTS	TOTAL
Interest on debt:						
Recourse	**$ 78,230**	**$ –**	**$ 78,230**	$ 41,496	$ –	$ 41,496
Limited recourse	**85,185**	**–**	**85,185**	48,993	–	48,993
Non-recourse	**2,097**	**15,833**	**17,930**	–	20,567	20,567
Other	**(1,817)**	**–**	**(1,817)**	12,022	16	12,038
Financial expenses	**163,695**	**15,833**	**179,528**	102,511	20,583	123,094
Financial income	**(7,883)**	**(4,439)**	**(12,322)**	(10,938)	(10,350)	(21,288)
Net foreign exchange losses (gains)	**174**	**65**	**239**	16,257	(219)	16,038
Financial income and net foreign exchange losses (gains)	**(7,709)**	**(4,374)**	**(12,083)**	5,319	(10,569)	(5,250)
Net financial expenses	**$ 155,986**	**$ 11,459**	**$ 167,445**	$ 107,830	$ 10,014	$ 117,844

30. STATEMENTS OF CASH FLOWS

A) OTHER RECONCILING ITEMS

The following table presents the items to reconcile net income (loss) to cash flows from operating activities presented in the statements of cash flows, for the year ended December 31:

	2018	2017
Depreciation of property and equipment and amortization of other non-current non-financial assets	**$ 324,569**	$ 215,557
Income taxes recognized in net income (Note 31B)	**(11,545)**	102,382
Net financial expenses recognized in net income (Note 29)	**167,445**	117,844
Share-based expense (Note 24)	**45,586**	42,069
Income from Capital investments accounted for by the equity method	**(204,087)**	(184,819)
Dividends and distributions received from Capital investments accounted for by the equity method	**170,540**	156,876
Income from E&C investments accounted for by the equity method [(1)]	**(37,277)**	(14,911)
Dividends and distributions received from E&C investments accounted for by the equity method [(1)]	**7,919**	22,088
Net change in provisions related to forecasted losses on certain contracts	**23,826**	(51,640)
Gain on disposals of Capital investments (Note 5A)	**(67,552)**	(42,078)
Remeasurement of a foreign exchange option (Note 6D)	**–**	48,727
Restructuring costs recognized in net income (Note 28)	**68,591**	26,363
Restructuring costs paid	**(22,045)**	(85,893)
Loss (gain) from disposals of E&C businesses (Note 7)	**474**	(999)
Gain on disposal of the head office building (Note 15)	**–**	(115,101)
Impairment of goodwill (Note 16)	**1,240,415**	–
Other	**12,958**	(53,515)
Other reconciling items	**$ 1,719,817**	$ 182,950

(1) In 2017, "Income from E&C investments accounted for by the equity method" and "Dividends and distributions received from E&C investments accounted for by the equity method" were included in "Other" in "Other reconciling items".

B) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

The following table presents the items included in the net change in non-cash working capital related to operating activities presented in the statements of cash flows, for the year ended December 31:

	2018	2017
Decrease (increase) in trade receivables	**$ 51,957**	$ (30,035)
Increase in contract assets	**(453,412)**	–
Decrease in contracts in progress	**–**	125,217
Decrease in inventories	**11,956**	11,571
Decrease (increase) in other current financial assets	**(43,979)**	110,408
Decrease (increase) in other current non-financial assets	**57,160**	(121,563)
Decrease in trade payables	**(14,614)**	(248,364)
Increase in contract liabilities	**121,856**	–
Decrease in downpayments on contracts	**–**	(109,719)
Decrease in deferred revenues	**–**	(334,319)
Decrease in other current financial liabilities	**(19,195)**	(20,591)
Decrease in other current non-financial liabilities	**(217,463)**	(23,698)
Net change in non-cash working capital items	**$ (505,734)**	$ (641,093)

C) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table provides a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities for the year ended December 31, 2018:

	Recourse debt [1]	Limited recourse debt	Non-recourse debt [2]	Dividends declared to SNC-Lavalin shareholders	Other non-current financial liabilities [3]	Other non-current non-financial liabilities [3]
Balance at January 1, 2018	$ 1,345,539	$ 1,475,177	$ 312,964	$ –	$ 15,425	$ 53,367
Changes arising from cash flows:						
Increase	2,609,134	–	95,159	–	7,250	20,663
Repayment	(1,741,315)	(500,000)	(7,243)	(201,521)	(2,089)	(13,040)
Total – changes arising from cash flows	867,819	(500,000)	87,916	(201,521)	5,161	7,623
Non-cash changes:						
Declaration of dividends to SNC-Lavalin shareholders	–	–	–	201,521	–	–
Effect of foreign currency exchange differences	68,802	–	2,836	–	1,890	518
Amortization of deferred financing costs and discounts	5,860	5,126	1,144	–	–	–
Loss on derivatives used for hedges	–	–	–	–	14,559	–
Measurement of a loan from a non-controlling interest at its initial fair value (Note 22C(x))	–	–	(5,155)	–	–	–
Contingent consideration related to the Linxon transaction (Note 6A)	–	–	–	–	16,470	–
Balance at December 31, 2018	**$ 2,288,020**	**$ 980,303**	**$ 399,705**	**$ –**	**$ 53,505**	**$ 61,508**

(1), (2), (3) See Notes 1, 2 and 3 on the following page

CHANGES ARISING FROM CASH FLOWS – RECOURSE DEBT, LIMITED RECOURSE DEBT AND NON-RECOURSE DEBT

YEAR ENDED DECEMBER 31	2018		
	INCREASE OF DEBT	REPAYMENT OF DEBT	PAYMENT FOR DEBT ISSUE COSTS
Recourse debt:			
Revolving Facility	$ 1,376,381	$ (1,339,461)	$ (1,586)
Term Facility	–	(397,553)	–
Term Loan (Note 22A)	500,000	–	(1,375)
2020 Debentures	–	–	(357)
Series 2, 3 and 4 Debentures (Note 22A)	523,713	–	(823)
Series 5 Debentures (Note 22A)	149,850	–	(160)
Bank overdraft	59,190	–	–
Total – Recourse debt	**2,609,134**	**(1,737,014)**	**(4,301)**
Limited recourse debt:			
CDPQ Loan	–	(500,000)	–
Total – Limited recourse debt	**–**	**(500,000)**	–
Non-recourse debt:			
Credit facility – InPower BC General Partnership	42,164	–	–
Senior Secured Notes	40,850	–	–
Unsecured loan from Linxon	12,145	–	–
Other	–	(7,243)	–
Total – Non-recourse debt	**95,159**	**(7,243)**	**–**
Total	**$ 2,704,293**	**$ (2,244,257)**	**$ (4,301)**

30. STATEMENTS OF CASH FLOWS (CONTINUED)

(1) Recourse short-term debt and recourse long-term debt were presented in the Company's consolidated statements of financial position as follows:

	DECEMBER 31 2018	JANUARY 1 2018
Recourse short-term debt	$ 1,116,587	$ 318,757
Recourse long-term debt	1,171,433	1,026,782
Total	**$ 2,288,020**	**$ 1,345,539**

(2) Non-recourse short-term debt and long-term debt were presented in the Company's consolidated statements of financial position as follows:

	DECEMBER 31 2018	JANUARY 1 2018
Non-recourse short-term debt from Capital investments	$ 57,240	$ 15,566
Non-recourse short-term debt from E&C	2,928	–
Non-recourse short-term debt	60,168	15,566
Non-recourse long-term debt from Capital investments	292,125	297,398
Non-recourse long-term debt from E&C	47,412	–
Non-recourse long-term debt	339,537	297,398
Total	**$ 399,705**	**$ 312,964**

(3) Change arising from cash flows of other non-current financial liabilities and other non-current non-financial liabilities was presented in the financing activities in the Company's consolidated statement of cash flows as follows:

YEAR ENDED DECEMBER 31	2018
Other non-current financial liabilities	$ 5,161
Other non-current non-financial liabilities	7,623
Other	16
Total	**$ 12,800**

The following table provides a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities for the year ended December 31, 2017:

	Recourse debt (4)	Limited recourse debt	Non-recourse debt from Capital investments (5)	Dividends declared to SNC-Lavalin shareholders	Other non-current financial liabilities (6)	Other non-current non-financial liabilities (6)
Balance at January 1, 2017	$ 349,369	$ –	$ 493,582	$ –	$ 5,928	$ 15,846
Changes arising from cash flows:						
Increase	2,681,931	1,500,000	5,971	–	2,008	10,853
Repayment	(2,198,845)	(26,648)	(5,969)	(177,948)	(5,679)	(2,832)
Total – changes arising from cash flows	483,086	1,473,352	2	(177,948)	(3,671)	8,021
Non-cash changes:						
Declaration of dividends to SNC-Lavalin shareholders	–	–	–	177,948	–	–
Effect of foreign currency exchange differences	(3,092)	–	906	–	(260)	34
Amortization of deferred financing costs and discounts	6,545	1,825	15	–	–	–
Reclassification of deferred financing costs and discounts previously included in "Other current non-financial assets"	(8,128)	–	–	–	–	–
Non-current portion of deferred tenant allowance related to the disposal of the head office building	–	–	–	–	–	29,466
Additions through a business combination	517,759	–	–	–	13,428	–
Disposal of a Capital investment accounted for by the consolidation method	–	–	(181,541)	–	–	–
Balance at December 31, 2017	**$ 1,345,539**	**$ 1,475,177**	**$ 312,964**	**$ –**	**$ 15,425**	**$53,367**

(4), (5), (6) See Notes 4, 5 and 6 on the following page

30. STATEMENTS OF CASH FLOWS (CONTINUED)

CHANGES ARISING FROM CASH FLOWS – RECOURSE DEBT, LIMITED RECOURSE DEBT AND NON-RECOURSE DEBT

YEAR ENDED DECEMBER 31	2017		
	INCREASE OF DEBT	REPAYMENT OF DEBT	PAYMENT FOR DEBT ISSUE COSTS
Recourse debt:			
Revolving Facility	$ 1,884,621	$ (1,691,843)	$ (5,552)
Term Facility (Note 22A)	498,060	–	(2,615)
Credit facility and senior notes of Atkins	–	(498,331)	–
2020 Debentures (Note 22A)	299,250	–	(504)
Total – Recourse debt	**2,681,931**	**(2,190,174)**	**(8,671)**
Limited recourse debt:			
CDPQ Loan	1,500,000	–	(26,648)
Total – Limited recourse debt	**1,500,000**	**–**	**(26,648)**
Non-recourse debt:			
Capital investments accounted for by the consolidation method	5,971	(5,969)	–
Total – Non-recourse debt	**5,971**	**(5,969)**	**–**
Total	**$ 4,187,902**	**$ (2,196,143)**	**$ (35,319)**

(4) Recourse short-term debt and recourse long-term debt were presented in the Company's consolidated statements of financial position as follows:

	DECEMBER 31 2017	JANUARY 1 2017
Recourse short-term debt	$ 318,757	$ –
Recourse long-term debt	1,026,782	349,369
Total	**$ 1,345,539**	**$ 349,369**

(5) Non-recourse short-term debt and long-term debt from Capital investments were presented in the Company's consolidated statements of financial position as follows:

	DECEMBER 31 2017	JANUARY 1 2017
Non-recourse short-term debt from Capital investments	$ 15,566	$ 21,011
Non-recourse long-term debt from Capital investments	297,398	472,571
Total	**$ 312,964**	**$ 493,582**

(6) Change arising from cash flows of other non-current financial liabilities and other non-current non-financial liabilities was presented in the financing activities in the Company's consolidated statement of cash flows as follows:

YEAR ENDED DECEMBER 31	2017
Other non-current financial liabilities	$ (3,671)
Other non-current non-financial liabilities	8,021
Other	407
Total	**$ 4,757**

D) SHARES ISSUED IN EXCHANGE OF SUBSCIPTION RECEIPTS

The acquisition of WS Atkins plc (see Note 6B) in 2017 was partially financed using the net proceeds from an $880 million public bought deal offering of subscription receipts completed through a syndicate of underwriters and a $400 million concurrent private placement of subscription receipts with the Caisse de dépôt et placement du Québec. The issuance of 24,880,000 common shares, which the net book value amounted to $1,234.7 million, in exchange of subscription receipts resulted in cash proceeds of $1,220.8 million in 2017.

31. INCOME TAXES

A) DEFERRED INCOME TAX ASSET AND DEFERRED INCOME TAX LIABILITY

Deferred income taxes arising from temporary differences and unused tax losses can be summarized as follows:

	JANUARY 1 2018	Impact of adoption of new standards and an amendment (Note 2B)	Recognized in other comprehensive income	Derecognized upon disposals of investments	Recognized in net income	Exchange differences and other charges	DECEMBER 31 2018
Current:							
Retentions on client contracts	$ (32,352)	$ 32,352	$ –	$ –	$ –	$ –	$ –
Contract assets	–	(41,840)	–	–	(5,414)	956	(46,298)
Contracts in progress	(10,149)	10,149	–	–	–	–	–
Retentions on supplier contracts	18,573	–	–	–	(1,964)	–	16,609
Accrued employee compensation	28,112	(1,113)	–	–	5,960	1,361	34,320
Current liabilities	81,501	815	–	–	(9,159)	1,430	74,587
Other	8,968	–	–	–	12,261	909	22,138
Non-current:							
Property and equipment, and goodwill	(203,436)	–	–	–	18,761	(5,155)	(189,830)
Other non-current financial assets	(25,860)	117	–	–	(10,694)	–	(36,437)
Provisions	(53)	–	–	–	(15,732)	13,767	(2,018)
Capital investments accounted for by the equity or cost methods	(106,806)	–	5,192	6,419	(30,552)	(1,747)	(127,494)
Pension plans and other post-employment benefits	101,833	–	(10,328)	–	(4,382)	820	87,943
Other	32,367	51,988	2,037	–	(21,653)	1,579	66,318
Unused tax losses	275,628	–	–	–	108,238	5,364	389,230
Deferred income tax asset, net	$ 168,326	$ 52,468	$ (3,099)	$ 6,419	$ 45,670	$ 19,284	$ 289,068
Presented on the statement of financial position as follows:							
Deferred income tax asset	$ 545,551						$ 652,155
Deferred income tax liability	$ 377,225						$ 363,087

Deferred income taxes for the comparative period of 2017 can be summarized as follows:

	JANUARY 1 2017	Recognized in other comprehensive income	Recognized upon business combinations	Derecognized upon disposals of businesses and investments	Recognized in net income	Exchange differences and other charges	DECEMBER 31 2017
Current:							
Retentions on client contracts	$ (47,927)	$ –	$ –	$ –	$ 15,575	$ –	$ (32,352)
Contracts in progress	(8,448)	–	(2,533)	–	877	(45)	(10,149)
Retentions on supplier contracts	33,104	–	–	–	(14,531)	–	18,573
Accrued employee compensation	13,477	–	31,493	–	(17,529)	671	28,112
Current liabilities	102,962	–	10,923	–	(30,476)	(1,908)	81,501
Other	232	–	(10,270)	–	19,420	(414)	8,968
Non-current:							
Property and equipment, and goodwill	(63,277)	–	(179,028)	–	36,424	2,445	(203,436)
Other non-current financial assets	(27,044)	–	–	11,431	(10,247)	–	(25,860)
Provisions	14,432	–	3,926	–	(19,213)	802	(53)
Capital investments accounted for by the equity or cost methods(1)	(157,800)	(20,465)	–	26,019	(14,859)	60,299	(106,806)
Pension plans and other post-employment benefits	15,519	(1,818)	84,212	–	(2,231)	6,151	101,833
Other	1,938	1,292	16,305	–	(1,139)	13,971	32,367
Unused tax losses	274,575	–	2,953	(1,563)	3,676	(4,013)	275,628
Deferred income tax asset, net	$ 151,743	$ (20,991)	$ (42,019)	$ 35,887	$ (34,253)	$ 77,959	$ 168,326
Presented on the statement of financial position as follows:							
Deferred income tax asset	$ 421,461						$ 545,551
Deferred income tax liability	$ 269,718						$ 377,225

(1) In 2017, exchange differences and other charges of $60.3 million included $59.3 million of deferred taxes related to disposal group classified as held for sale.

As at December 31, 2018, the Company had $2,665.4 million (2017: $1,875.2 million) of non-capital tax losses carried-forward of which $1,691.5 million will expire in varying amounts from 2019 to 2039 (2017: $1,213.0 million expiring from 2018 to 2038). As at December 31, 2018, a deferred income tax asset of $389.2 million (2017: $275.6 million) has been recognized on $1,660.3 million (2017: $1,110.7 million) of these losses. The deferred income tax assets are recognized only to the extent that it is probable that taxable income will be available against which the unused tax losses can be utilized. As at December 31, 2018, the Company had $275.5 million of the unrecognized non-capital tax losses that will expire in varying amounts from 2019 to 2039 (2017: $218.6 million expiring in varying amounts from 2018 to 2038).

As at December 31, 2018, the Company had $187.5 million (2017: $100.7 million) of capital tax losses carried-forward on which no deferred income tax asset has been recognized of which $25.1 million will expire in 2031 and 2032 (2017: $25.1 million expiring in 2031 and 2032), while the remaining capital tax losses have no expiry date.

As at December 31, 2018, a deferred income tax liability has not been recognized on taxable temporary differences of $846.5 million (2017: $848.1 million) associated with investments in subsidiaries, associates and interests in joint arrangements, as the Company controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future.

31. INCOME TAXES (CONTINUED)

B) INCOME TAXES

The relationship between the expected income taxes based on the Canadian effective tax rate of SNC-Lavalin at 26.7% (2017: 26.6%) and the reported income taxes in net income can be reconciled as follows:

YEARS ENDED DECEMBER 31	**2018**		2017	
	AMOUNT	%	AMOUNT	%
Income before income taxes	**$ (1,327,840)**		$ 485,533	
Canadian tax rate for SNC-Lavalin		**26.7**		26.6
Expected income taxes	**$ (354,706)**		$ 129,297	
Increase (decrease) resulting from:				
Effect of goodwill impairment	**331,352**	**(25.0)**	–	–
Effect of differences of foreign tax rates compared to Canadian rates	**(24,829)**	**1.9**	(27,449)	(5.7)
Effect of Canadian provincial tax rate differences	**(672)**	**0.1**	(1,503)	(0.3)
Effect of adjustments to deferred tax attributable to changes related to the U.S. Tax Reform	**6,021**	**(0.5)**	42,453	8.7
Net income and losses not affected by tax	**99,209**	**(7.5)**	3,818	0.8
Effect of differences between accounting gain and taxable gain realized on disposal of the head office building	**–**	**–**	(17,282)	(3.6)
Effect of differences between accounting gain and taxable gain realized from disposals of E&C businesses	**–**	**–**	(135)	–
Effect of differences between accounting gain and taxable gain realized on disposals of Capital investments	**(11,113)**	**0.8**	(8,778)	(1.8)
Effect of reversal of a previous write-down of deferred income tax asset	**(2,181)**	**0.2**	–	–
Effect of write-down of previously recognized deferred income tax asset (liability)	**9,280**	**(0.7)**	6,533	1.3
Non-taxable income from certain Capital investments accounted for by the equity or cost methods	**(45,793)**	**3.4**	(41,806)	(8.6)
Other permanent differences for tax purposes	**5,321**	**(0.4)**	2,420	0.5
Other	**(23,434)**	**1.9**	14,814	3.2
Income taxes at effective tax rate	**$ (11,545)**	**0.9**	$ 102,382	21.1

SNC-Lavalin's income taxes were comprised of the following:

YEARS ENDED DECEMBER 31	**2018**	2017
Current income taxes	**$ 34,125**	$ 68,129
Deferred income taxes	**(45,670)**	34,253
Income taxes	**$ (11,545)**	$ 102,382

32. FINANCIAL INSTRUMENTS

A) CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying value of financial assets held by SNC-Lavalin at December 31, 2018 by category and classification, with the corresponding fair value, when available:

AT DECEMBER 31	2018					
	CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY					
	FVTPL [1]	FVTOCI [2]	AMORTIZED COST	DERIVATIVES USED FOR HEDGES	TOTAL	FAIR VALUE
Cash and cash equivalents	$ 634,084	$ –	$ –	$ –	$ 634,084	$ 634,084
Restricted cash	12,722	–	–	–	12,722	12,722
Trade receivables	–	–	1,503,824	–	1,503,824	1,503,824
Other current financial assets:						
Derivative financial instruments	–	–	–	39,952	39,952	39,952
Financial assets at FVTPL	11,574	–	–	–	11,574	11,574
Other current financial assets	–	–	195,765	–	195,765	196,370
Capital investment accounted for by the cost method	–	10,663	–	–	10,663	10,633
Non-current portion of receivables under service concession arrangements [3]	–	–	327,299	–	327,299	342,122
Other non-current financial assets:						
Derivative financial instruments	–	–	–	5,981	5,981	5,981
Other:						
Financial asset at FVTOCI	–	657	–	–	657	657
Other non-current financial assets [3]	–	–	23,385	–	23,385	23,385
Total	$ 658,380	$ 11,320	$ 2,050,273	$ 45,933	$ 2,765,906	

(1) Fair value through profit or loss ("FVTPL")

(2) Fair value through other comprehensive income ("FVTOCI")

(3) For non-current portion of receivables under service concession arrangements and most of the other non-current financial assets other than at fair value, the Company uses the present value technique to determine the fair value.

32. FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the carrying value of financial assets held by SNC-Lavalin at December 31, 2017 by category and classification, with the corresponding fair value, when available:

AT DECEMBER 31	2017					
	CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY					
	FVTPL [1]	AVAILABLE-FOR-SALE	LOANS AND RECEIVABLES	DERIVATIVES USED FOR HEDGES	TOTAL	FAIR VALUE
Cash and cash equivalents	$ 706,531	$ –	$ –	$ –	$ 706,531	$ 706,531
Restricted cash	20,932	–	–	–	20,932	20,932
Trade receivables	–	–	1,445,859	–	1,445,859	1,445,859
Other current financial assets:						
Derivative financial instruments	–	–	–	37,967	37,967	37,967
Financial assets at FVTPL	5,271	–	–	–	5,271	5,271
Other current financial assets	–	–	399,262	–	399,262	399,262
Capital investments accounted for by the cost method:						
At fair value [2]	–	52,708	–	–	52,708	52,708
At cost [2]	–	2,350	–	–	2,350	See [2]
At amortized cost	–	–	556	–	556	556
Non-current portion of receivables under service concession arrangements [3]	–	–	273,340	–	273,340	291,238
Other non-current financial assets:						
Derivative financial instruments [4]	7,602	–	–	14,552	22,154	22,154
Other:						
At cost/amortized cost [3]	–	–	22,167	–	22,167	22,167
Total	$ 740,336	$ 55,058	$ 2,141,184	$ 52,519	$ 2,989,097	

(1) Fair value through profit or loss ("FVTPL"), comprised of financial assets classified as held for trading.

(2) These available-for-sale financial assets represent mainly equity instruments that do not have a quoted market price in an active market.

(3) For non-current portion of receivables under service concession arrangements and most of the other non-current financial assets other than at fair value, the Company uses the present value technique to determine the fair value.

(4) In 2017, the net loss on derivative financial instruments at FVTPL entered into in 2015 for the purpose of the Company's share unit plans amounted to $3.8 million.

32. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present the carrying value of SNC-Lavalin's financial liabilities at December 31, 2018 and December 31, 2017 by category and classification, with the corresponding fair value, when available:

AT DECEMBER 31	2018				
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY				
	DERIVATIVES USED FOR HEDGES	FVTPL (1)	AMORTIZED COST	TOTAL	FAIR VALUE
Trade payables	**$ –**	**$ –**	**$ 2,352,944**	**$ 2,352,944**	**$ 2,352,944**
Other current financial liabilities:					
Derivative financial instruments	**60,254**	**–**	**–**	**60,254**	**60,254**
Other current financial liabilities	**–**	**–**	**238,447**	**238,447**	**238,447**
Provisions	**–**	**–**	**98,502**	**98,502**	**98,502**
Short-term debt and long-term debt (4):					
Recourse	**–**	**–**	**2,288,020**	**2,288,020**	**2,290,682**
Limited recourse	**–**	**–**	**980,303**	**980,303**	**980,303**
Non-recourse	**–**	**–**	**399,705**	**399,705**	**415,577**
Other non-current financial liabilities (2), (3)	**15,594**	**17,889**	**20,022**	**53,505**	**53,505**
Total	**$ 75,848**	**$ 17,889**	**$ 6,377,943**	**$ 6,471,680**	

(1) Fair value through profit or loss ("FVTPL")

(2) In 2018, the net loss on derivative financial instruments at FVTPL entered into in 2015 for the purpose of the Company's share unit plans amounted to $14.7 million.

(3) In 2018, the net loss on contingent consideration to be transferred to seller related to Linxon acquisition (see Note 6A), which is a financial liability at FVTPL, amounted to $1.4 million.

AT DECEMBER 31	2017			
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY			
	DERIVATIVES USED FOR HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	FAIR VALUE
Trade payables	$ –	$ 2,176,947	$ 2,176,947	$ 2,176,947
Downpayments on contracts	–	149,388	149,388	149,388
Other current financial liabilities:				
Derivative financial instruments	20,775	–	20,775	20,775
Other current financial liabilities	–	243,949	243,949	243,949
Provisions	–	52,519	52,519	52,519
Short-term debt and long-term debt (4):				
Recourse	–	1,345,539	1,345,539	1,366,320
Limited recourse	–	1,475,177	1,475,177	1,475,177
Non-recourse	–	312,964	312,964	336,574
Other non-current financial liabilities	1,303	14,122	15,425	15,425
Total	$ 22,078	$ 5,770,605	$ 5,792,683	

(4) The fair value of short-term debt and long-term debt classified in the "amortized cost" category in 2018 and in the "other financial liabilities" category in 2017 was determined using public quotations or the discounted cash flows method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin or to the Capital investments, depending on which entity has issued the debt instrument, for debt with the similar terms and conditions.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The methodology used to measure the Company's financial instruments accounted for at fair value is determined based on the following hierarchy:

LEVEL	BASIS FOR DETERMINATION OF FAIR VALUE	FINANCIAL INSTRUMENTS
Level 1	Quoted prices in active markets for identical assets or liabilities	None
Level 2	Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability	Cash and cash equivalents, restricted cash, derivatives, life insurance policies, which are included in "Other current financial assets" and equity investments measured at FVTOCI
Level 3	Inputs for the asset or liability that are not based on observable market data	The Company's equity investment in Astoria Project Partners II LLC included in "Capital investments accounted for by the cost method" up until its disposal on October 24, 2018 (see Note 5A)

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE AND FOR WHICH THE FAIR VALUE IS DISCLOSED

The methodology used to determine the fair value of the following Company's assets and liabilities not measured at fair value is based on the following hierarchy:

LEVEL	BASIS FOR DETERMINATION OF FAIR VALUE	ASSETS AND LIABILITIES
Level 1	Quoted prices in active markets for identical assets or liabilities	None
Level 2	Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability	Trade receivables, receivables under service concession arrangements, trade payables, short-term debt and long-term debt, as well as the following assets and liabilities not measured at fair value: other current financial assets, other non-current financial assets, other current financial liabilities, provisions and other non-current financial liabilities
Level 3	Inputs for the asset or liability that are not based on observable market data	None

For the years ended December 31, 2018 and 2017, there were no changes in valuation techniques and in inputs used in the fair value measurements and there were no transfers between the levels of the fair value hierarchy.

B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

NATURE OF RISK	DESCRIPTION
Credit risk	Risk that SNC-Lavalin will incur a financial loss if the other party to a financial instrument fails to discharge an obligation. The maximum exposure to credit risk for SNC-Lavalin at the end of a given period usually corresponds to the carrying amount of its financial assets exposed to such risk, as presented in Note 32A.
Liquidity risk	Possibility that SNC-Lavalin will encounter difficulties in meeting the obligations associated with its financial liabilities
Market risk	Variability in the fair value or future cash flows of a financial instrument caused by a change in market prices in items such as currency rates, interest rates and equity prices

CREDIT RISK

For SNC-Lavalin, credit risk arises from:

i) Cash and cash equivalents, and restricted cash, which are invested in liquid and high-grade financial instruments, based on SNC-Lavalin's investment policy.

ii) Derivative financial instruments with a favourable fair value, which contain an inherent credit risk relating to default on obligations by the counterparty. This credit risk is reduced by entering into such contracts with high-grade financial institutions, which are expected to satisfy their obligations under the contracts.

iii) Trade receivables, as detailed in Note 9A, and contract assets, as detailed in Note 9B. A given client may represent a material portion of SNC-Lavalin's consolidated revenues in any given year due to the size of a particular project and the progress accomplished on such project.

32. FINANCIAL INSTRUMENTS (CONTINUED)

The Company's objective is to reduce credit risk by ensuring collection of its trade receivables on a timely basis. The amounts of trade receivables presented in the consolidated statements of financial position are net of an allowance for expected credit losses (2017: net of an allowance for doubtful accounts), estimated by the Company and based, in part, on the age of specific and aggregated receivable balances, on the financial situation of specific customers and the current and expected collection trends. When assessing the credit risk associated with its trade receivables, the Company also considers the other financial and non-financial assets and liabilities recognized with the same customer or within the same project to provide additional indications on the Company's exposure to credit risk. As such, in addition to the age of its trade receivables, the Company also considers the age of its contract assets (2017: contracts in progress), as well as the existence of any contract liabilities (2017: deferred revenue or downpayments on contracts) on the same project or with the same customer.

In addition to providing for individual balances of trade receivables and other financial assets upon certain events, the Company has an internal policy in place which requires to record, by default, an allowance on any trade receivable or contract asset that has been outstanding longer than a specific threshold, unless it can be demonstrated that the recovery of such trade receivable is not at risk or only partially at risk, in which case the allowance is adjusted accordingly. Moreover, the Company records an amount of additional expected credit losses on trade receivables and contract assets for balances that are not provided for and for which no impairment indicator exist as at period end, but for which it can be reasonably expected that credit losses might occur in the future. Such analysis incorporates the Company's past experience, adjusted as needed to better reflect anticipated conditions.

Generally, trade receivables and contract assets (2017: contracts in progress) are written-off if they are no longer subject to enforcement activity. As such, the amount of trade receivables and contract assets (2017: contract in progress) that have been written off but are still being pursued is minimal.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset disclosed in Note 9. The Company does not generally hold collateral as security.

iv) Other current financial assets, as detailed in Note 12, and other non-current financial assets, as detailed in Note 18. The current and non-current portions of receivables under service concession arrangements are within normal terms of payment and there were no significant amounts that were past due as at December 31, 2018 and 2017.

LIQUIDITY RISK

SNC-Lavalin monitors its liquidity risk arising from financial instruments on an ongoing basis by ensuring that it has access to sufficient resources to meet its obligations.

The Company's liquidity is generally provided by available cash and cash equivalents, cash generated from operations, credit facilities and access to capital markets, as needed. Due to the nature of the Company's activities, the fact that its operations are conducted through multiple entities and joint operations and that it operates in many countries, the Company's cash and cash equivalents are distributed across numerous locations. In order to manage its cash needs and reserves, the Company is part of various pooling agreements with financial institutions, may transfer cash balances between subsidiaries, joint arrangements or investees and use credit facilities to meet the capital requirements of certain projects or other cash disbursements.

SNC-Lavalin's consolidated statement of financial position included $356.5 million at December 31, 2018 (2017: $328.9 million) of liabilities from Capital investments that are accounted for by the consolidation method. These liabilities, which are non-recourse to the Company, are to be repaid by the Capital investments and are secured by the respective concession's assets, including $356.5 million of financial assets at December 31, 2018 (2017: $292.0 million), and by SNC-Lavalin's shares or units in such concession investments. As such, the actual book value at risk for SNC-Lavalin, assuming its Capital investments accounted for by the consolidation method were unable to meet their obligations, corresponds to the carrying amount invested in these entities.

SNC-Lavalin's future principal payments on its short-term debt and long-term debt are presented in Note 22.

32. FINANCIAL INSTRUMENTS (CONTINUED)

I) MATURITY ANALYSIS OF FINANCIAL LETTERS OF CREDIT

A draw on letters of credit or bank guarantees (Note 32C) by one or more third parties could, among other things, significantly reduce the Company's cash position and have a material adverse effect on its business and results of operations. The following table presents a maturity analysis for the financial letters of credit outstanding as at December 31, 2018 and 2017:

MATURITY	DECEMBER 31 2018	DECEMBER 31 2017
Not later than 1 year	**$ 233,986**	$ 257,064
Later than 1 year and not later than 5 years	**20,768**	22,249
Later than 5 years	**694**	919
	$ 255,448	$ 280,232

II) MATURITY ANALYSIS OF TRADE PAYABLES

As at December 31, 2018, 100% (2017: 99%) of the outstanding balance of "Trade payables" of $2,352.9 million (2017: $2,176.9 million) had a maturity of not later than 1 year.

III) MATURITY ANALYSIS OF OTHER FINANCIAL LIABILITIES

Prior to January 1, 2018, the "Downpayments on contracts" were contractually agreed advance payments made by clients that were deducted from future billings to such clients as work was performed and did not usually have a fixed contractual maturity. This liability was reversed based on the stage of completion method over the duration of a contract.

Prior to January 1, 2018, the "Retentions on supplier contracts" included in "Other current financial liabilities" (Note 20) were short-term liabilities the settlement of which was usually determined by the achievement of contractual milestones on projects and usually did not have a fixed contractual maturity.

MARKET RISK

I) CURRENCY RISK

SNC-Lavalin's foreign currency risk arises from arrangements in currencies other than its reporting currency and from the net assets (liabilities) of its foreign operations.

Foreign currency risk is managed by the Company by matching, when possible, the cash receipts in a foreign currency and the cash disbursements in the same foreign currency, for revenue-generating projects in which foreign currencies are involved. Derivative financial instruments with banks, usually forward foreign exchange contracts, are also used to hedge the cash flows in foreign currencies.

The following table summarizes the major forward foreign exchange contracts that were outstanding, for which SNC-Lavalin has committed to buy or sell foreign currencies:

AT DECEMBER 31, 2018			AT DECEMBER 31, 2017		
BUY	SELL	MATURITY	BUY	SELL	MATURITY
CA$1,756,097	**US$1,323,215**	**2019-2023**	CA$1,923,190	US$ 1,509,872	2018-2022
CA$ 19,435	**€ 12,512**	**2019-2022**	CA$ 33,690	€ 21,939	2018-2022
US$ 721,989	**CA$ 964,180**	**2019-2021**	US$ 609,937	CA$ 779,347	2018-2021
€ 60,240	**CA$ 91,968**	**2019-2022**	€ 94,165	CA$ 141,758	2018-2021
CA$ 404,713	**£ 235,700**	**2019**	CA$ 164,638	£ 96,953	2018
AU$ 130,000	**CA$ 126,066**	**2019**	AU$ 184,500	CA$ 179,834	2018
£ 144,577	**CA$ 245,627**	**2019**	£ 74,266	CA$ 127,430	2018
€ 86,247	**US$ 104,791**	**2019-2020**	€ 73,515	US$ 88,064	2018-2019
INR 7,124,000	**£ 68,715**	**2019-2021**	INR 6,511,000	£ 63,073	2018-2021
US$ 57,560	**£ 45,514**	**2019**	US$ 46,700	£ 34,847	2018
CHF 60,867	**US$ 60,743**	**2019-2021**	–	–	–

As at December 31, 2018, the forward foreign exchange contracts used for hedging purposes by the Company had a net unfavourable fair value of $21.4 million (2017: favourable fair value of $25.3 million). The majority of the forward foreign exchange contracts that were outstanding at that date were to either buy or sell foreign currencies against the Canadian dollar.

32. FINANCIAL INSTRUMENTS (CONTINUED)

CURRENCY SENSITIVITY ANALYSIS

The following impact on equity for the year ended December 31, 2018 has been calculated from the Company's net assets (liabilities) denominated in US dollars, Saudi Arabian riyals and British pounds, from derivative financial instruments used to hedge the exposure to US dollars, Saudi Arabian riyals and British pounds and from investments made in foreign operations.

		IMPACT ON EQUITY		
		CA$/US$ [2], [3]	CA$/SAR [2], [4]	CA$/£ [2], [5]
Increase (decrease)	10% appreciation in the Canadian dollar [1]	**$ (274,111)**	**$ (23,642)**	**$ (237,469)**
Increase (decrease)	10% depreciation in the Canadian dollar [1]	**$ 274,111**	**$ 23,642**	**$ 237,469**

(1) Assuming all other variables remain the same.
(2) The Company's exposure to other currencies is not significant.
(3) Includes mainly $334.2 million of change in exchange differences on translating foreign operations.
(4) Includes mainly $23.4 million of change in exchange differences on translating foreign operations.
(5) Includes mainly $215.3 million of change in exchange differences on translating foreign operations.

As at December 31, 2018, the 10% appreciation in the Canadian dollar comparing to: i) the US dollar would decrease the Company's net loss by $1.9 million (10% depreciation in the Canadian dollar comparing to the US dollar would increase the Company's net loss by $1.9 million); ii) the Saudi Arabian riyal would increase the Company's net loss by $0.2 million (10% depreciation in the Canadian dollar comparing to the Saudi Arabian riyal would decrease the Company's net loss by $0.2 million); and iii) the British pound would decrease the Company's net loss by $0.2 million (10% depreciation in the Canadian dollar comparing to the British pound would increase the Company's net loss by $0.2 million).

II) INTEREST RATE RISK

Cash and cash equivalents, and restricted cash, usually involve limited interest rate risk due to their short-term nature.

NON-RECOURSE LONG-TERM DEBT

Unlike E&C activities, Capital investments are often capital intensive due to the ownership of assets that are financed mainly with project-specific debt, which is usually non-recourse to the general credit of the Company. These investments usually reduce their exposure to interest rate risk by entering into fixed-rate financing arrangements or by hedging the variability of interest rates through derivative financial instruments. Fixing the interest rates gives the Capital investments stable and predictable financing cash outflows, which are usually structured to match the expected timing of their cash inflows.

In 2018, a subsidiary of the Company from E&C activities issued senior secured notes to finance certain long-term assets associated to BOO (Build-Own-Operate) contract. The senior secured notes bear interest at a variable rate which exposes the Company to interest rate risk. Also, in relation to the acquisition of Linxon by SNC-Lavalin in 2018, the holder of non-controlling interest of 49% in Linxon granted an interest-free loan and provided a working capital revolving credit facility to Linxon. The working capital revolving credit facility bears interest at a variable rate which exposes the Company to the interest rate risk.

LIMITED RECOURSE DEBT

SNC-Lavalin's limited recourse debt bears interest at a variable rate which exposes the Company to the interest rate risk.

RECOURSE SHORT-TERM DEBT EXCLUDING CAPITAL INVESTMENTS

SNC-Lavalin's recourse short-term debt bears interest at a variable rate which exposes the Company to interest rate risk.

RECOURSE LONG-TERM DEBT EXCLUDING CAPITAL INVESTMENTS

Certain SNC-Lavalin's debentures bear interest at a fixed rate and are measured at amortized cost; therefore, the Company's net income is not exposed to a change in interest rates on these financial liabilities.

SNC-Lavalin's Term Loan and certain debentures bear interest at a variable rate which exposes the Company to interest rate risk.

32. FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATE SENSITIVTY ANALYSIS

For floating rate debt, the analysis is prepared assuming the amount of the debt outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower of the base rate and all other variables were held constant, the Company's net loss for the year ended December 31, 2018 would decrease/increase by $18.7 million. This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

The Company's sensitivity to interest rates has increased during the current year mainly due to increase in variable rate debt instruments.

III) EQUITY PRICE RISK

SNC-Lavalin limits its exposure arising from the share unit plans caused by fluctuations in its share price, through financial arrangements with investment high-grade financial institutions described in Note 24C.

C) LETTERS OF CREDIT

Under certain circumstances, SNC-Lavalin provides bank letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual retentions and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. As at December 31, 2018, SNC-Lavalin had outstanding letters of credit of $2,374.1 million (2017: $1,907.0 million).

33. CAPITAL MANAGEMENT

SNC-Lavalin's main objective when managing its capital is to maintain an adequate balance between: i) having sufficient capital for financing net asset positions, maintaining satisfactory bank lines of credit and capacity to absorb project net retained risks, while at the same time, ii) maximizing return on equity.

The Company defines its capital as its equity attributable to SNC-Lavalin shareholders excluding other components of equity plus its recourse debt. The Company excludes other components of equity from its definition of capital because this element of equity results in part from the translation into Canadian dollars of its foreign operations having a different functional currency, and from the accounting treatment of cash flow hedges, including its accumulated share of other comprehensive income of investments accounted for by the equity method. These amounts are not representative of the way the Company evaluates the management of its foreign currency risk and interest risk. Accordingly, the other components of equity are not representative of the Company's financial position.

The Company does not consider non-recourse and limited recourse debt when monitoring its capital because such debt results from the consolidation of certain E&C investments and Capital investments or holding entities held by the Company. As such, the lenders of such debt do not have recourse to the general credit of the Company, but rather to the specific assets of the E&C investments and Capital investments or investment in Capital investments they finance. The Company's investments and underlying assets in its E&C investments and Capital investments accounted for by the consolidation or equity methods may be at risk, however, if such investments or holding entities were unable to repay their long-term debt.

The Company's capital for the years ended December 31, 2018 and 2017 was as follows:

	DECEMBER 31 2018	DECEMBER 31 2017
Recourse debt	**$ 2,288,020**	$ 1,345,539
Equity attributable to SNC-Lavalin shareholders	**$ 3,650,903**	$ 5,225,131
Less: Other components of equity	**499,199**	277,974
Plus: Recourse debt	**2,288,020**	1,345,539
Total amount of capital	**$ 5,439,724**	$ 6,292,696

The Company has paid quarterly dividends for 29 consecutive years. Dividend policy is determined by the Board of Directors of the Company.

COVENANTS ON RECOURSE AND LIMITED RECOURSE DEBT

The Company's unsecured recourse debentures are committed and subject to affirmative and negative covenants, as defined in the debentures agreements.

The Company's Revolving Facility and Term Loan are committed and subject to affirmative, negative and financial covenants, including a requirement to maintain at all times, on a rolling 12-month basis, a net recourse debt to earnings before interest, taxes, depreciation and amortization ratio, as defined in the Credit Agreement, which was amended on February 1, 2019, not exceeding a certain limit.

The term "net recourse debt to earnings before interest, taxes, depreciation and amortization ratio" is defined in the Credit Agreement and does not correspond to the Company's metrics as presented above and/or to the specific terms used in the Management's Discussion and Analysis for the year ended December 31, 2018.

The CDPQ Loan is subject to affirmative and negative covenants, as well as financial covenants, notably not to exceed, on a rolling 12-month and consolidated basis, a maximum net recourse debt to EBITDA ratio, as defined under the CDPQ Loan agreement, on two consecutive quarters, starting six full quarters after the initial funding date.

In case of an event of default, the Company's debentures, the Revolving Facility, the Term Loan and the CDPQ Loan are subject to customary accelerated repayment terms.

In 2018, the Company complied with all of the covenants, as amended when applicable, related to its debentures, Revolving Facility, Term Loan and CDPQ Loan.

34. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS

A) PENSION PLANS

SNC-Lavalin has defined contribution and defined benefit pension plans. The total cash amount paid by SNC-Lavalin for its pension plans, consisting of contributions to its defined contribution and defined benefit pension plans, was $208.9 million in 2018 (2017: $125.6 million).

DEFINED CONTRIBUTION PENSION PLANS

SNC-Lavalin's contributions to its defined contribution plans are recorded as expenses in the year in which they are incurred and totalled $134.8 million in 2018 (2017: $86.9 million).

DEFINED BENEFIT PENSION PLANS

SNC-Lavalin has a number of defined benefit pension plans, which are mostly closed to new entrants, and that provide pension benefits based on length of service and final pensionable earnings. An individual actuarial valuation is performed every year for two plans and at least every three years for the remaining plans. The measurement date used for the benefit obligation and plan assets is December 31 of each year. All SNC-Lavalin's defined benefit pension plans are partly funded, except for two plans, of which one plan is unfunded and one plan is secured by a letter of credit.

The defined benefit plans are administrated by committees composed of a number of representatives from employer's representatives, active employees, inactive employees and independent members. Members of the committees are required by law and by their articles of association to act in the best interest of the pension plans and all their relevant stakeholders, i.e. active employees, inactive employees, retirees and employers. The pension plan committees are responsible for the investment policy with regard to the assets of the pension plans, which are held by a trustee legally separated from SNC-Lavalin.

SNC-Lavalin's defined benefit pension plans typically expose the Company to actuarial risks such as: investment risk, interest rate risk, compensation risk and longevity risk.

NATURE OF RISK	DESCRIPTION
Investment risk	The present value of the defined benefit pension plan obligation is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on the plans' assets is below this rate, it will create a plan deficit.
Interest risk	A decrease in the bond interest rate will increase the plans' liabilities; however, this will be partially offset by an increase in the return on the plans' debt securities.
Compensation risk	The present value of the defined benefit pension plan obligation is calculated by reference to the final pensionable earnings of the plans' participants.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of the plans' participants both during and after their employment. An increase in the life expectancy of the plans' participants will increase the plans' liability.

The two main defined benefit schemes of the Company are the Atkins Pension Plan and the U.K. Railways Pension Scheme (the "Railways Pension Scheme"), both of which are funded final salary schemes in the U.K. The latest actuarial valuations were performed on March 31, 2016 for the Atkins Pension Plan and on December 31, 2016 for the Railways Pension Scheme.

34. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following tables set forth the change in pension benefit obligation and pension plan assets, as well as the funded status of SNC-Lavalin's defined benefit pension plans:

YEAR ENDED DECEMBER 31, 2018	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Change in pension benefit obligation:				
Pension benefit obligation at beginning of year	$ 3,053,563	$ 683,728	$ 294,439	$ 4,031,730
Acquisition of Linxon	–	–	9,175	9,175
Current service cost	173	4,496	727	5,396
Interest cost	72,281	16,600	7,553	96,434
Past service cost (1)	19,668	4,722	672	25,062
Benefits paid	(155,801)	(23,517)	(15,810)	(195,128)
Contributions by plan participants	–	2,594	107	2,701
Remeasurement:				
Actuarial (gains) losses arising from changes in demographic assumptions	(17,638)	(15,217)	(1,938)	(34,793)
Actuarial (gains) losses arising from changes in financial assumptions	(203,354)	(42,365)	(12,125)	(257,844)
Actuarial (gains) losses arising from experience adjustments	(1,729)	5,879	923	5,073
Effect of foreign currency exchange differences	43,676	9,444	5,225	58,345
Pension benefit obligation at end of year	$ 2,810,839	$ 646,364	$ 288,948	$ 3,746,151
Change in pension plan assets:				
Fair value of pension plan assets at beginning of year	$ 2,720,318	$ 503,537	$ 281,530	$ 3,505,385
Acquisition of Linxon	–	–	5,806	5,806
Interest income	64,326	12,277	7,166	83,769
Remeasurement:				
Return on plan assets (excluding interest income)	(207,108)	(16,886)	(7,823)	(231,817)
Administration costs	–	(682)	(264)	(946)
Benefits paid	(155,801)	(23,517)	(15,810)	(195,128)
Contributions by the employer	60,868	5,361	7,875	74,104
Contributions by plan participants	–	2,594	107	2,701
Effect of foreign currency exchange differences	37,940	6,824	4,449	49,213
Fair value of pension plan assets at end of year	$ 2,520,543	$ 489,508	$ 283,036	$ 3,293,087

AT DECEMBER 31, 2018	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Funded status reflected in the statement of financial position:				
Present value of pension benefit obligation	$ 2,810,839	$ 646,364	$ 288,948	$ 3,746,151
Fair value of pension plan assets	2,520,543	489,508	283,036	3,293,087
Funded status	290,296	156,856	5,912	453,064
Additional liability due to minimum funding requirements	–	–	2,758	2,758
Net accrued pension benefit liability	$ 290,296	$ 156,856	$ 8,670	$ 455,822

Presented on the statement of financial position as follows:	
Other non-current non-financial assets (Note 19)	$ 27,893
Non-current portion of provisions	$ 483,715

(1) Relates to October 26, 2018 U.K. High Court ruling (see Note 3)

34. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following tables set forth the change in pension benefit obligation and pension plan assets, as well as the funded status of SNC-Lavalin's defined benefit pension plans:

YEAR ENDED DECEMBER 31, 2017	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Change in pension benefit obligation:				
Pension benefit obligation at beginning of year	$ –	$ 141,399	$ 180,637	$ 322,036
Acquisition of Atkins	2,970,511	520,950	124,797	3,616,258
Current service cost	167	3,154	423	3,744
Interest cost	35,932	10,605	6,357	52,894
Past service cost resulting from a plan amendment	–	–	(12,023)	(12,023)
Benefits paid	(106,630)	(10,856)	(12,472)	(129,958)
Contributions by plan participants	–	1,652	–	1,652
Remeasurement:				
Actuarial (gains) losses arising from changes in demographic assumptions	59,054	(12,415)	(2,164)	44,475
Actuarial losses arising from changes in financial assumptions	52,899	9,619	214	62,732
Actuarial losses arising from experience adjustments	13,475	10,863	1,866	26,204
Effect of foreign currency exchange differences	28,155	8,757	6,804	43,716
Pension benefit obligation at end of year	$ 3,053,563	$ 683,728	$ 294,439	$ 4,031,730
Change in pension plan assets:				
Fair value of pension plan assets at beginning of year	$ –	$ 89,841	$ 135,541	$ 225,382
Acquisition of Atkins	2,603,742	391,176	139,007	3,133,925
Interest income	32,938	7,453	5,489	45,880
Remeasurement:				
Return on plan assets (excluding interest income)	135,908	14,915	2,921	153,744
Administration costs	–	(424)	(328)	(752)
Benefits paid	(106,630)	(10,856)	(12,472)	(129,958)
Contributions by the employer	28,779	3,548	6,356	38,683
Contributions by plan participants	–	1,652	–	1,652
Effect of foreign currency exchange differences	25,581	6,232	5,016	36,829
Fair value of pension plan assets at end of year	$ 2,720,318	$ 503,537	$ 281,530	$ 3,505,385

AT DECEMBER 31, 2017	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Funded status reflected in the statement of financial position:				
Present value of pension benefit obligation	$ 3,053,563	$ 683,728	$ 294,439	$ 4,031,730
Fair value of pension plan assets	2,720,318	503,537	281,530	3,505,385
Funded status	333,245	180,191	12,909	526,345
Additional liability due to minimum funding requirements	–	–	2,773	2,773
Net accrued pension benefit liability	$ 333,245	$ 180,191	$ 15,682	$ 529,118
Presented on the statement of financial position as follows:				
Other non-current non-financial assets (Note 19)				$ 24,171
Non-current portion of provisions				$ 553,289

34. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

SNC-Lavalin's net defined benefit pension costs recognized in net income were comprised of:

YEAR ENDED DECEMBER 31, 2018	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Current service cost	**$ 173**	**$ 4,496**	**$ 727**	**$ 5,396**
Net interest expense	**7,954**	**4,323**	**476**	**12,753**
Administration costs	**–**	**682**	**264**	**946**
Past service cost [(1)]	**19,668**	**4,722**	**672**	**25,062**
Components of benefit pension costs recognized in net income	**$ 27,795**	**$ 14,223**	**$ 2,139**	**$ 44,157**

(1) Relates to October 26, 2018 U.K. High Court ruling (see Note 3)

YEAR ENDED DECEMBER 31, 2017	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Current service cost	$ 167	$ 3,154	$ 423	$ 3,744
Net interest expense	2,994	3,152	1,012	7,158
Administration costs	–	424	328	752
Past service cost resulting from a plan amendment	–	–	(12,023)	(12,023)
Components of (reversal of) benefit pension costs recognized in net income	$ 3,161	$ 6,730	$ (10,260)	$ (369)

SNC-Lavalin's net defined benefit pension costs recognized in other comprehensive income were comprised of:

YEAR ENDED DECEMBER 31, 2018	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Remeasurement on the net defined benefit liability:				
Return on plan assets (excluding interest income)	**$ 207,108**	**$ 16,886**	**$ 7,823**	**$ 231,817**
Actuarial gains arising from changes in demographic assumptions	**(17,638)**	**(15,217)**	**(1,938)**	**(34,793)**
Actuarial gains arising from changes in financial assumptions	**(203,354)**	**(42,365)**	**(12,125)**	**(257,844)**
Actuarial (gains) losses arising from experience adjustments	**(1,729)**	**5,879**	**923**	**5,073**
Variation in liability due to minimum funding requirements	**–**	**–**	**(104)**	**(104)**
Components of reversal of benefit pension costs recognized in other comprehensive income	**$ (15,613)**	**$ (34,817)**	**$ (5,421)**	**$ (55,851)**

YEAR ENDED DECEMBER 31, 2017	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Remeasurement on the net defined benefit liability:				
Return on plan assets (excluding interest income)	$ (135,908)	$ (14,915)	$ (2,921)	$ (153,744)
Actuarial (gains) losses arising from changes in demographic assumptions	59,054	(12,415)	(2,164)	44,475
Actuarial losses arising from changes in financial assumptions	52,899	9,619	214	62,732
Actuarial losses arising from experience adjustments	13,475	10,863	1,866	26,204
Effect of the asset ceiling from remeasurement	–	–	(590)	(590)
Variation in liability due to minimum funding requirements	–	–	(884)	(884)
Components of reversal of benefit pension costs recognized in other comprehensive income	$ (10,480)	$ (6,848)	$ (4,479)	$ (21,807)

SNC-Lavalin expects to make contributions of $76.7 million in 2019 to its defined benefit pension plans.

34. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following tables present the fair value of the major categories of assets of SNC-Lavalin's defined benefit pension plans:

AT DECEMBER 31, 2018	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Asset category				
Equity securities	**$ 570,777**	**$ 206,272**	**$ 27,624**	**$ 804,673**
Debt securities	**1,603,512**	**185,782**	**243,924**	**2,033,218**
Other [(1)]	**346,254**	**97,454**	**11,488**	**455,196**
Total	**$ 2,520,543**	**$ 489,508**	**$ 283,036**	**$ 3,293,087**

AT DECEMBER 31, 2017	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS	TOTAL
Asset category				
Equity securities	$ 737,336	$ 245,536	$ 27,763	$ 1,010,635
Debt securities	1,597,251	175,388	246,319	2,018,958
Other [(1)]	385,731	82,613	7,448	475,792
Total	$ 2,720,318	$ 503,537	$ 281,530	$ 3,505,385

(1) As at December 31, 2018 and 2017, the asset category "Other" includes mainly property and cash.

The fair values of the above equity and debt instruments are mainly determined based on quoted prices in active markets.

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued pension benefit obligation as at December 31, 2018:

AT DECEMBER 31, 2018	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS
Accrued pension benefit obligation			
Discount rate	**2.80%**	**2.80%**	**2.71%**
Rate of compensation increase [(2)]	**3.10%**	**3.10%**	**1.88%**
Inflation [(3)]	**3.10%**	**3.10%**	**2.19%**
Longevity at age 65 for current pensioners			
Men	**23.2 years**	**22.5 years**	**23.1 years**
Women	**24.4 years**	**23.6 years**	**25.1 years**
Longevity at age 65 for future pensioners (current age 45)			
Men	**24.6 years**	**23.9 years**	**24.6 years**
Women	**25.9 years**	**25.1 years**	**26.5 years**

(2) The weighted average rate of compensation increase excluding pension plans for which benefits are not linked to future salary levels represented 2.76% as at December 31, 2018.

(3) The inflation assumption shown for Atkins Pension Plan and the Railways Pension Scheme is for the Retail Price Index. The assumption for the Consumer Price Index was 2.10% as at December 31, 2018.

34. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued pension benefit obligation as at December 31, 2017:

AT DECEMBER 31, 2017	ATKINS PENSION PLAN	RAILWAYS PENSION SCHEME	OTHER PLANS
Accrued pension benefit obligation			
Discount rate	2.40%	2.44%	2.54%
Rate of compensation increase [(1)]	3.10%	3.10%	1.87%
Inflation [(2)]	3.10%	3.10%	2.25%
Longevity at age 65 for current pensioners			
Men	23.3 years	23.1 years	23.3 years
Women	24.5 years	24.5 years	25.2 years
Longevity at age 65 for future pensioners (current age 45)			
Men	24.7 years	24.5 years	24.7 years
Women	26.0 years	26.0 years	26.6 years

(1) The weighted average rate of compensation increase excluding pension plans for which benefits are not linked to future salary levels represented 2.85% as at December 31, 2017.

(2) The inflation assumption shown for Atkins Pension Plan and the Railways Pension Scheme is for the Retail Price Index. The assumption for the Consumer Price Index was 2.10% as at December 31, 2017.

The sensitivity analysis below was determined based on reasonable possible changes of the respective assumptions occurring at December 31, 2018, while holding all other assumptions constant.

If the discount rate is 1% higher (lower), the defined benefit pension obligation would decrease by an estimated amount of $683.9 million (increase by an estimated amount of $688.9 million).

If the rate of compensation increase is 1% higher (lower), the defined benefit pension obligation would increase by an estimated amount of $20.7 million (decrease by an estimated amount of $20.7 million).

If the inflation increase is 1% higher (lower), the defined benefit pension obligation would increase by an estimated amount of $475.8 million (decrease by an estimated amount of $475.6 million).

If the longevity increases by 1 year, the defined benefit pension obligation would increase by an estimated amount of $130.1 million.

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit pension obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analyses, the present value of the defined benefit pension obligation was calculated using the projected unit credit method at the end of the reporting period, which is the same method applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

The weighted average duration of the pension benefit obligation as at December 31, 2018 was 19.0 years for Atkins Pension Plan (2017: 20.0 years), 17.1 years for Railways Pension Scheme (2017: 16.6 years) and 15.5 years for the other plans (2017: 17.7 years).

B) OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS

SNC-Lavalin has a number of other long-term benefit and other post-employment benefit plans, which are all defined benefit plans and include mainly termination indemnities, medical and dental care benefits, and life insurance benefits. SNC-Lavalin's other long-term benefit and other post-employment benefit plans are unfunded plans.

34. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following table sets forth the change in obligation of SNC-Lavalin's other long-term benefit and other post-employment benefit plans:

YEARS ENDED DECEMBER 31	2018	2017
Change in obligation:		
Obligation at beginning of year	**$ 78,885**	$ 49,703
Acquisition of businesses	**3,728**	37,449
Current service cost	**14,989**	12,852
Past service cost	**667**	(177)
Interest cost	**3,732**	3,189
Remeasurement (1)	**(171)**	135
Benefits paid	**(18,640)**	(20,150)
Actuarial gains (Note 25)	**(2,081)**	(37)
Effect of foreign currency exchange differences	**3,895**	(4,079)
Obligation at end of year	**$ 85,004**	$ 78,885

SNC-Lavalin's net defined other long-term benefit and other post-employment benefit costs recognized in net income were comprised of:

YEARS ENDED DECEMBER 31	2018	2017
Current service cost	**$ 14,989**	$ 12,852
Past service cost	**667**	(177)
Interest cost	**3,732**	3,189
Remeasurement (1)	**(171)**	135
Components of other long-term benefit and other post-employment benefit costs recognized in net income	**$ 19,217**	$ 15,999

(1) Remeasurement relates to two other long-term employee benefit plans of SNC-Lavalin for which remeasurement is not recognized in other comprehensive income, but rather in the income statement.

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued other long-term benefit and other post-employment benefit obligation:

	DECEMBER 31 2018	DECEMBER 31 2017
Accrued other long-term benefit and other post-employment benefit obligation		
Discount rate	**4.73%**	4.90%
Rate of compensation increase (2)	**4.50%**	3.75%

(2) Rate of compensation increase applies only to termination indemnities.

35. CONTINGENT LIABILITIES

A) ONGOING INVESTIGATIONS

In February 2012, the Board of Directors initiated an independent investigation (the "Independent Review"), led by its Audit Committee, of the facts and circumstances surrounding certain payments that were documented (under certain agreements presumed to be agency agreements) to construction projects to which they did not relate, and certain other contracts. On March 26, 2012, the Company announced the results of the Independent Review and related findings and recommendations of the Audit Committee to the Board of Directors and provided information to the appropriate authorities. The Company understands that investigations by law enforcement and securities regulatory authorities remain ongoing in connection with this information, which are described in greater detail below.

Charges and RCMP investigations

On February 19, 2015, the Royal Canadian Mounted Police (the "RCMP") and the Public Prosecution Service of Canada ("PPSC") laid charges against the Company and its indirect subsidiaries SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. Each entity has been charged with one count of fraud under Section 380 of the Criminal Code (Canada) (the "Criminal Code") and one count of corruption under Section 3(1)(b) of the Corruption of Foreign Public Officials Act (Canada) (the "CFPOA"), (the "Charges"). These Charges follow the RCMP's formal investigation (including in connection with the search warrant executed by the RCMP at the Company on April 13, 2012) into whether improper payments were made or offered, directly or indirectly, to be made, to a government official of Libya to influence the award of certain engineering and construction contracts between 2001 and 2011. This investigation also led to criminal charges being laid against two former employees of the Company. The Company understands that the charges laid against one or both of these former employees include bribery under the CFPOA, fraud, laundering the proceeds of crime and possession of property obtained by crime under the Criminal Code, and contravention of the *Regulations Implementing the United Nations Resolutions on Libya* in Canada. Due to the inherent uncertainties of these proceedings, it is not possible to predict the final outcome of the Charges, which could possibly result in a conviction on one or more of the Charges. The Company cannot predict what, if any, other actions may be taken by any other applicable government or authority or the Company's customers or other third parties as a result of the Charges, or whether additional charges may be brought in connection with the RCMP investigation of these matters.

In September 2018, amendments to the Criminal Code came into effect introducing new provisions allowing the settlement of certain types of charges against a corporation (including certain charges related to the CFPOA, such as those of which the Company has been accused) through a remediation agreement. The Company was advised by the Director of the PPSC in October 2018 that at this time it will not be invited by PPSC to negotiate a remediation agreement in relation to the Charges and in accordance with these new provisions.

On October 19, 2018, the Company filed an application with the Federal Court of Canada for a judicial review of the decision of the Director of the PPSC. The Director of the PPSC in turn filed a motion with that court to strike out that application. A hearing of that motion to strike took place February 1, 2019; judgement of the court will follow in due course.

The preliminary inquiry into the Charges against the Company commenced in the Court of Quebec on October 29, 2018. The purpose of the preliminary inquiry is to determine if there is sufficient evidence to set the matter down for a full trial. Final arguments are due to be completed before the court on April 1, 2019; judgement of the court will follow in due course. Depending on the outcome of the preliminary inquiry, the Company may seek a further review of the decision of the Court of Quebec. Subject to the outcome of the preliminary inquiry, and of any resulting review, a trial on the Charges may commence in 2019 or 2020.

While the Company remains open and committed to the possibility of negotiating a remediation agreement with the office of the Director of the PPSC, it also has defences to the Charges and will pursue those vigorously in the context of the preliminary inquiry, any resulting trial and any applicable appeals thereof.

However, having regard to the uncertainty regarding a remediation agreement, in December 2018 the Board of directors of SNC-Lavalin established a special committee to consider options that would protect value for SNC-Lavalin stakeholders.

The Charges and potential outcomes thereof, and any negative publicity associated therewith, could adversely affect the Company's business, results of operations and reputation and could subject the Company to sanctions, fines and other penalties, some of which may be significant. In addition, potential consequences of the Charges could include, in respect of the Company or one or more of its subsidiaries, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain governments (such as the Government of Canada and/or Canadian provincial governments) or by certain administrative organizations under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue (and an even larger percentage of its annual Canadian revenue) from government and government-related contracts. As a result, suspension, prohibition or debarment, whether discretionary or mandatory, from participating in certain government and government-related contracts (in Canada, Canadian provinces or elsewhere) would likely have a material adverse effect on the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities.

35. CONTINGENT LIABILITIES (CONTINUED)

The Company also understands that a RCMP investigation, relating to alleged payments in connection with a 2002 contract for the refurbishment of the Jacques Cartier Bridge by a consortium which included SNC-Lavalin and which led to a guilty plea by the former head of the Canada Federal Bridges Corporation in 2017, continues and its scope may include the Company.

AMF Investigation; AMF Certification under the Quebec Act Respecting Contracting by Public Bodies

The Company understands that there is an ongoing investigation being conducted in the context of applicable securities laws and regulations by the securities regulator in the Province of Quebec, the Autorité des marchés financiers (the "AMF").

Certain subsidiaries of the Company require certification from the AMF, subject to periodic renewal, to contract with public bodies in the Province of Quebec, as required pursuant to the *Act Respecting Contracting by Public Bodies*. If an entity or any of its affiliates is convicted of certain specified offences under the Criminal Code or the CFPOA, AMF certification can be automatically revoked. In addition, the AMF has the discretionary power to refuse to grant an authorization or revoke or not renew an authorization if it determines that the enterprise concerned fails to meet the high standards of integrity that the public is entitled to expect from a party to a public contract or subcontract. Those subsidiaries of the Company that need to be certified by the AMF have obtained that certification.

World Bank Settlement

On April 17, 2013, the Company announced a settlement in connection with the previously announced investigations by the World Bank Group relating to a project in Bangladesh and a project in Cambodia, which includes a suspension of the right to bid on and to be awarded World Bank Group-financed projects by SNC-Lavalin Inc., a subsidiary of the Company, and its controlled affiliates for a period of 10 years (the "World Bank Settlement"). The suspension could be lifted after eight years, if the terms and conditions of the settlement agreement are complied with fully. According to the terms of the World Bank Settlement, the Company and certain of its other affiliates continue to be eligible to bid on and be awarded World Bank Group-financed projects as long as they comply with all of the terms and conditions imposed upon them under the terms of the World Bank Settlement, including an obligation not to evade the sanction imposed. The World Bank Settlement also requires that the Company cooperate with the World Bank on various compliance matters in the future. The World Bank Settlement has led to certain other multilateral development banks following suit, debarring SNC-Lavalin Inc. and its controlled affiliates on the same terms.

African Development Bank Settlement

On October 1, 2015, the Company announced a settlement with the African Development Bank relating to allegations of corruption in two African countries (the "African Development Bank Settlement"). The African Development Bank Settlement requires that the Company cooperate with the African Development Bank on various compliance matters in the future.

Canada's Integrity Regime

The Canadian government announced the Integrity Regime for procurement and real property transactions on July 3, 2015. The scope of offences which may cause a supplier to be deemed ineligible to carry on business with the federal government are broad and encompass offences under the Criminal Code, the Competition Act, and the CFPOA, among others. Some of the offences qualifying for ineligibility include: bribery, fraud, money laundering, falsification of books and documents, extortion, and offences related to drug trafficking. A determination of ineligibility to participate in federal government procurement projects may apply for 10 years for listed offences. However, the Integrity Regime permits the ineligibility period to be reduced by up to five years if a supplier can establish that it has cooperated with law enforcement authorities or addressed the causes of misconduct. The Canadian government is currently considering further revisions to the Integrity Regime.

If a supplier is charged with a listed offence (as is presently the case with the Company), it may under the Integrity Regime be ineligible to do business with the Canadian government while legal proceedings are ongoing.

If a supplier applies for a reduced ineligibility period, or if a supplier charged with a listed offence is notified that it could be ineligible to do business with the Canadian government, as a condition of granting the reduced ineligibility period or not suspending the supplier an administrative agreement may be imposed to monitor the supplier. Administrative agreements include conditions and compliance measures that the supplier must meet to remain eligible to contract with the federal government.

35. CONTINGENT LIABILITIES (CONTINUED)

The Company has signed an administrative agreement with Public Services and Procurement (PSP) of the Government of Canada under the Integrity Regime.

Failure of the Company to abide by the terms of any of its certification from the AMF, the World Bank Settlement, the African Development Bank Settlement and/or the PSP Administrative Agreement could result in serious consequences for the Company, including new sanctions, legal actions and/or suspension from eligibility to carry on business with the government or agency involved or to work on projects funded by them. The Company is taking steps that are expected to mitigate this risk.

Other Investigations

The Company understands that there are also investigations by various authorities ongoing in various jurisdictions with respect to the above and other matters. In addition, Pierre Duhaime and Riadh Ben Aïssa, former Company employees, have been charged by authorities in the Province of Quebec with various fraud offences allegedly in connection with a Company project in the Province of Quebec. On July 10, 2018, Mr. Ben Aïssa pleaded guilty to the charge of using a forged document in exchange for other charges being dropped, and was accordingly sentenced to 51 months incarceration. On November 26, 2018, another accused, Yanai Elbaz, also registered a guilty plea on certain offenses and was accordingly sentenced to 39 months incarceration, while another accused, Yohann Elbaz, was acquitted. On February 1, 2019, the last remaining accused, former SNC-Lavalin CEO Pierre Duhaime, plead guilty to one count of complicity in the breach of trust by Yanai Elbaz; accordingly Duhaime was sentenced to 20 months of house arrest (during first 7 of which he will not be authorized to leave house), 240 hours of community service, a $200,000 fine payable to an organization supporting victims of criminal acts plus 1 year of probation during which he is forbidden to serve as corporate director.

On October 1, 2014, Mr. Ben Aïssa entered guilty pleas to certain criminal charges in the Federal Criminal Court of Switzerland following a lengthy investigation by Swiss authorities and the detention of Mr. Ben Aïssa by Swiss authorities from April 2012 to October 2014. The Company was recognized as an injured party in the context of the Swiss proceedings and was awarded for certain offences for which Mr. Ben Aïssa has plead guilty a sum equivalent to CA$17.2 million translated using the exchange rates as at October 1, 2014 (representing the equivalent of 12.9 million CHF and US$2.0 million) plus interest. The Company has received the full amount due under this award.

The Company is currently unable to determine when any of the above investigations will be completed or whether other investigations of the Company by these or other authorities will be initiated or the scope of current investigations broadened. The Company continues to cooperate and communicate with authorities in connection with all ongoing investigations as noted above. If regulatory, enforcement or administrative authorities or third parties determine to take action against the Company or to sanction the Company in connection with possible violations of law, contracts or otherwise, the consequences of any such sanctions or other actions, whether actual or alleged, could require the Company to pay material fines or damages, consent to injunctions on future conduct or lead to other penalties including temporary or permanent, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain administrative organizations (such as those provided for in the World Bank Settlement) or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices, each of which could and/or would, materially adversely affect the Company's business, financial condition and liquidity and the market price of the Company's publicly traded securities.

The outcomes of the above investigations or the Charges could also result in, among other things, i) covenant defaults under various project contracts, ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or iii) adverse consequences on the Company's ability to secure or continue its own financing, or to continue or secure financing for current or future projects, any of which could materially adversely affect the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities. In addition, the Charges, these investigations and outcomes of these investigations or Charges and any negative publicity associated therewith, could damage SNC-Lavalin's reputation and ability to do business. Finally, the findings and outcomes of the Charges or these investigations may affect the course of the class action lawsuits (described below).

Due to the uncertainties related to the outcome of the Charges and each of the above investigations, the Company is currently unable to reliably estimate an amount of potential liabilities or a range of potential liabilities, if any, in connection with the Charges or any of these investigations.

The Company's senior management and Board of Directors have been required to devote significant time and resources to the investigations described above and ongoing related matters which have distracted and may continue to distract from the conduct of the Company's daily business, and significant expenses have been and may continue to be incurred in connection with these investigations including substantial fees of lawyers and other advisors. In addition, the Company and/or other employees or additional former employees of the Company could become the subject of these or other investigations by law enforcement and/or regulatory authorities in respect of the matters described above or other matters which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

B) CLASS ACTION LAWSUITS AND MOTION

The Company was subject to class actions in Quebec and Ontario commenced in 2012 on behalf of security holders (collectively, the "Actions"). The Actions were brought pursuant to the secondary market civil liability provisions in the various Canadian provincial and territorial securities statutes. The Actions alleged that various of the Company's public disclosure documents issued between November 2009 and November 2011 included misrepresentations. The Actions sought damages, on behalf of all persons who acquired securities of SNC-Lavalin between November 6, 2009 and February 27, 2012, based on the decline in market value of SNC-Lavalin shares following the Company's February 28, 2012 news release and other public announcements.

On May 22, 2018, the Company reached an agreement to settle the Actions, with the Company agreeing to pay $88.0 million to the plaintiffs. The settlement has since been approved by the Ontario and Quebec courts.

On February 6, 2019, a "Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of the Quebec securities act" (the "Class Action Motion") was filed with the Quebec Superior Court, on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through January 27, 2019 (the "Class Period"), and held some or all of such shares as of the commencement of trading on January 28, 2019.

The Class Action Motion alleges that certain documents filed by SNC-Lavalin and oral statements made by its Chief Executive Officer during the Class Period contained misrepresentations by failing to timely disclose material risks to SNC-Lavalin arising from the Mining & Metallurgy and Oil &Gas segments, which misrepresentations would have been corrected by way of SNC-Lavalin's January 28, 2019 press release.

The Class Action Motion seeks leave from the Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act. The proposed action claims damages and seeks the condemnation of the Defendants to pay the class members an unspecified amount for compensatory damages with interest and additional indemnity as well as full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution.

SNC-Lavalin believes the claims outlined in the Class Action Motion are completely without merit. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action Motion or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class action lawsuits or other litigation. SNC-Lavalin has directors' and officers' liability insurance insuring individuals against liability for acts or omissions in their capacity as directors and officers, and the Company itself has coverage for such a claim. The amount of coverage under the directors' and officers' policy is limited and such coverage may be less than any amounts the Company is required or determines to pay in connection with the Class Action Motion. If the Company is required or determines to pay an amount in connection with the Class Action Motion, such amount could have a material adverse impact on SNC-Lavalin's liquidity and financial results.

C) OTHER

On June 12, 2014, the Quebec Superior Court rendered a decision in "Wave 1" of the matter commonly referred to as the "Pyrrhotite Case" in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately $168 million in damages apportioned amongst the then-known defendants, on an *in solidum* basis (the "Wave 1 claims"). SNC-Lavalin, among other parties, filed a Notice to Appeal the Superior Court decision both on merit and on the apportionment of liability. Based on the current judgment, SNC-Lavalin's share of the damages would be approximately 70%, a significant portion of which the Company would expect to recover from its external insurers (such insurance coverage is itself subject to litigation). The appeal hearing started in October 2017 and was completed in the week of April 30th, 2018. A decision from the Quebec Court of Appeal is expected in 2019.

35. CONTINGENT LIABILITIES (CONTINUED)

In addition to the appeal of the decision, a recourse in warranty was filed against another party seeking its contribution to the damages awarded against SNC-Lavalin in the Wave 1 judgement. This recourse, which is scheduled for trial beginning March 2019, may result in reduction of SNC-Lavalin's share of the damages.

In parallel to the appeal and warranty recourses for Wave 1 claims, additional potential claims were notified and continue to be notified against numerous defendants, including SNC-Lavalin, in "Wave 2" of the Pyrrhotite Case. Wave 2 claims are currently undergoing discovery stage and it is still premature to evaluate SNC-Lavalin's total liability exposure in respect of same, if any. It is currently estimated that a significant portion of the damages claimed are in respect of buildings for which the concrete foundations were poured outside of SNC-Lavalin's liability period, as determined in the Wave 1 judgement. SNC-Lavalin also expects some insurance coverage for Wave 2 claims. In addition, SNC-Lavalin has undertaken a warranty recourse against another party with respect to Wave 2 claims.

Legal proceedings

SNC-Lavalin becomes involved in various legal proceedings as a part of its ordinary course of business and this section describes certain important ordinary course of business legal proceedings, including the general cautionary language relating to the risks inherent to all litigation and proceedings against SNC-Lavalin, which is equally applicable to the legal proceedings described below.

While SNC-Lavalin cannot predict with certainty the final outcome or timing of the legal proceedings described below, based on the information currently available (which in some cases remains incomplete), SNC-Lavalin believes that it has strong defences to these claims and intends to vigorously defend its position.

SNC-Lavalin Inc. has initiated court proceedings against a Canadian client stemming from engineering, procurement, and construction management services that SNC-Lavalin Inc. provided in relation to the client's expansion of an ore-processing facility. SNC-Lavalin claimed from the client certain amounts due under the project contract. The client has counterclaimed alleging that SNC-Lavalin defaulted under the project contracts and seeking damages.

WS Atkins & Partners Overseas, a subsidiary of the Company, has received a claim letter from a former customer and its insurers seeking damages on account of the alleged refurbishment costs and loss of income arising from a fire at the customer's building. WS Atkins & Partners Overseas was involved in the hotel's design and construction supervision and the claim revolves around alleged negligence in the specification of the building cladding which is claimed to have exacerbated the fire, thereby increasing the damage to the building.

A subsidiary of SNC-Lavalin, and a customer, have each sought the appointment of an arbitrator to adjudicate certain mutual claims related to an on-going project in the Mining & Metallurgy segment. SNC-Lavalin claims from the client certain amounts due under or in connection with the project contract. The client has counter-claimed, alleging that SNC-Lavalin is in default under the project contracts and seeking damages. The same subsidiary of SNC-Lavalin is in an arbitration process with a key sub-contractor in relation to the same project, which dispute involves claims and counter-claims.

Due to the inherent uncertainties of litigation, it is not possible to (a) predict the final outcome of these and other related proceedings generally, (b) determine if the amount included in the Company's provisions is sufficient or (c) determine the amount of any potential losses, if any, that may be incurred in connection with any final judgment on these matters.

The Company is a party to other claims and litigation arising in the normal course of operations, including by clients, subcontractors, and vendors presenting claims for, amongst other things, recovery of costs related to certain projects. Due to the inherent uncertainties of litigation and-or the early stage of certain proceedings, it is not possible to predict the final outcome of all ongoing claims and litigation at any given time or to determine the amount of any potential losses, if any. With respect to claims or litigation arising in the normal course of operations which are at a more advanced stage and which permit a better assessment of potential outcome, the Company does not expect the resolution of these matters to have a materially adverse effect on its financial position or results of operations.

36. OPERATING LEASE ARRANGEMENTS

The following table presents the total of future minimum lease payments under SNC-Lavalin's non-cancellable operating leases at December 31, 2018 and 2017:

	DECEMBER 31 2018	DECEMBER 31 2017
Not later than 1 year	**$ 147,388**	$ 157,145
Later than 1 year and not later than 5 years	**375,624**	340,747
Later than 5 years	**317,352**	301,264
	$ 840,364	$ 799,156

SNC-Lavalin's payments under operating lease arrangements recognized as an expense in net income amounted to $191.6 million for the year ended December 31, 2018 (2017: $184.4 million).

As at December 31, 2018, future minimum sublease payments expected to be received under non-cancellable subleases totalled $34.2 million and were as follows: $12.2 million – not later than 1 year, $18.9 million – later than 1 year and not later than 5 years, and $3.1 million – later than 5 years. As at December 31, 2017, future minimum sublease payments expected to be received under non-cancellable subleases totalled $48.0 million and were as follows: $14.0 million – not later than 1 year, $28.8 million – later than 1 year and not later than 5 years, and $5.2 million – later than 5 years.

37. REMUNERATION

A) EMPLOYEE REMUNERATION

Expenses recognized for employee benefits, including expenses recognized for key management remuneration and directors' fees, are analyzed as follows:

YEARS ENDED DECEMBER 31	2018	2017
Short-term benefits [1]	**$ 4,203,622**	$ 3,920,493
Share-based payments	**45,586**	42,069
Defined contribution pension plans	**134,770**	86,900
Defined benefit pension plans, other long-term benefits and other post-employment benefits	**63,374**	15,630
	$ 4,447,352	$ 4,065,092

(1) Short-term benefits include mainly wages, salaries, social security contributions, sick leaves, profit-sharing and bonuses, non-monetary benefits and termination benefits that are expected to be settled within twelve months after the end of the annual reporting period.

B) KEY MANAGEMENT REMUNERATION AND DIRECTORS' FEES

The Company's key management include all employees that are classified at the executive levels, corresponding mainly to the vice-presidents and above, and all members of the Company's Board of Directors.

The number of individuals included as key management was 142 people in 2018 (2017: 141 people).

Expenses recognized for key management remuneration and directors' fees, even if the services were provided only for a portion of the year, are detailed as follows:

YEARS ENDED DECEMBER 31	2018	2017
Short-term benefits [2]	**$ 76,616**	$ 82,013
Share-based payments	**29,084**	34,793
Termination benefits	**1,668**	8,201
Defined benefit and defined contribution pension plans, other long-term benefits and other post-employment benefits	**2,939**	2,798
	$ 110,307	$ 127,805

(2) Short-term benefits include mainly wages, salaries, social security contributions, sick leaves, profit-sharing and bonuses and non-monetary benefits.

38. RELATED PARTY TRANSACTIONS

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its associates and joint ventures, mainly its Capital investments. Investments in which SNC-Lavalin has significant influence or joint control, which are accounted for by the equity method, are considered related parties.

For the year ended December 31, 2018 and 2017, SNC-Lavalin recognized the following transactions with its related parties:

YEARS ENDED DECEMBER 31	**2018**	2017
E&C revenue from contracts with investments accounted for by the equity method	**$ 1,102,920**	$ 1,098,337
Income from Capital investments accounted for by the equity method	**204,087**	184,819
Dividends and distributions received from Capital investments accounted for by the equity method	**170,540**	156,876
Income from E&C investments accounted for by the equity method	**37,277**	14,911
Dividends and distributions received from E&C investments accounted for by the equity method	**$ 7,919**	$ 22,088

As at December 31, 2018 and 2017, SNC-Lavalin has the following balances with its related parties:

AT DECEMBER 31	**2018**	2017
Trade receivables from investments accounted for by the equity method	**$ 117,359**	$ 77,550
Other current financial assets receivable from investments accounted for by the equity method	**131,694**	103,560
Remaining commitment to invest in Capital investments accounted for by the equity method	**$ 108,312**	$ 98,050

In 2018, SNC-Lavalin transferred its investment in MHIG and its holding company to an investment accounted for by the equity method, namely the SNCL IP Partnership, which resulted in a gain on disposal of $62.7 million before income taxes ($58.4 million after income taxes) (see Note 5A).

All of these related party transactions are measured at fair value.

39. SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES

The main subsidiaries, joint ventures, joint operations and associates of the Company at December 31, 2018 and 2017, except where otherwise indicated, in addition to their jurisdiction of incorporation and the percentage of voting shares beneficially owned, or controlled, or directed, directly or indirectly by the Company or the percentage of joint arrangement interest are set out below:

	2018	2017	
SUBSIDIARIES	**%**	%	COUNTRY
Atkins Limited	**100.0**	100.0	United Kingdom
Atkins US Holdings Inc.	**100.0**	100.0	United States
Candu Energy Inc.	**100.0**	100.0	Canada
Evergreen Rapid Transit Holdings Inc.	**100.0**	100.0	Canada
Faithful+Gould Limited	**100.0**	100.0	United Kingdom
Infrastructure Famille Santé Inc.	**100.0**	100.0	Canada
InPower BC General Partnership	**100.0**	100.0	Canada
Kentz Canada Holdings Limited	**100.0**	100.0	Canada
Kentz Corporation Limited	**100.0**	100.0	Channel Islands
Kentz Pty Ltd.	**100.0**	100.0	Australia
Kentz US Holdings Inc.	**100.0**	100.0	United States
Linxon Pvt Ltd	**51.0**	–	United Kingdom
P.T. SNC-Lavalin TPS	**95.0**	95.0	Indonesia
Saudi Arabia Kentz Co. LLC	**75.0**	75.0	Saudi Arabia
SNC-Lavalin	**100.0**	100.0	Belgium
SNC-Lavalin (GB) Holdings Limited	**100.0**	100.0	United Kingdom
SNC-Lavalin (GB) Limited	**100.0**	100.0	United Kingdom
SNC-Lavalin (Malaysia) Sdn. Bhd.	**100.0**	100.0	Malaysia
SNC-Lavalin (Proprietary) Limited	**100.0**	100.0	South Africa
SNC-Lavalin Algérie EURL	**100.0**	100.0	Algeria
SNC-Lavalin Arabia LLC	**100.0**	100.0	Saudi Arabia
SNC-Lavalin ATP Inc.	**100.0**	100.0	Canada
SNC-Lavalin Australia Pty. Ltd.	**100.0**	100.0	Australia
SNC-Lavalin Capital Inc.	**100.0**	100.0	Canada
SNC-Lavalin Chile S.A.	**100.0**	100.0	Chile
SNC-Lavalin Colombia S.A.S.	**100.0**	100.0	Colombia
SNC-Lavalin Construction (Atlantic) Inc.	**100.0**	100.0	Canada
SNC-Lavalin Construction Inc.	**100.0**	100.0	Canada
SNC-Lavalin Construction (Ontario) Inc.	**100.0**	100.0	Canada
SNC-Lavalin Constructors Inc.	**100.0**	100.0	United States
SNC-Lavalin Constructors International Inc.	**100.0**	100.0	Canada
SNC-Lavalin Constructors (Pacific) Inc.	**100.0**	100.0	Canada
SNC-Lavalin Defence Programs Inc.	**100.0**	100.0	Canada
SNC-Lavalin Engineering India Private Limited	**100.0**	100.0	India
SNC-Lavalin Engineers & Constructors, Inc.	**100.0**	100.0	United States
SNC-Lavalin Europe B.V.	**100.0**	100.0	Netherlands
SNC-Lavalin Europe S.A.S.	**100.0**	100.0	France
SNC-Lavalin GEM Ontario Inc.	**100.0**	100.0	Canada
SNC-Lavalin GEM Québec Inc.	**100.0**	100.0	Canada
SNC-Lavalin Highway Holdings Inc.	**100.0**	100.0	Canada
SNC-Lavalin Inc.	**100.0**	100.0	Canada
SNC-Lavalin International Inc.	**100.0**	100.0	Canada
SNC-Lavalin International S.A.S.	**100.0**	100.0	France
SNC-Lavalin Major Projects Inc.	**100.0**	100.0	Canada
SNC-Lavalin Nuclear Inc.	**100.0**	100.0	Canada
SNC-Lavalin Operations & Maintenance Inc.	**100.0**	100.0	Canada

39. SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES (CONTINUED)

SUBSIDIARIES	2018 %	2017 %	COUNTRY
SNC-Lavalin Peru S.A.	**100.0**	100.0	Peru
SNC-Lavalin Polska Sp. Z o.o.	**100.0**	100.0	Poland
SNC-Lavalin Projetos Industriais Ltda.	**100.0**	100.0	Brazil
SNC-Lavalin Rail & Transit Limited	**100.0**	100.0	United Kingdom
SNC-Lavalin Romania S.A.	**100.0**	100.0	Romania
SNC-Lavalin Stavibel Inc.	**100.0**	100.0	Canada
SNC-Lavalin UK Limited	**100.0**	100.0	United Kingdom
The Atkins North America Holdings Corporation	**100.0**	100.0	United States
The SNC-Lavalin Corporation	**100.0**	100.0	United States
Valerus Field Solutions Holdings LLC	**100.0**	100.0	United States
WS Atkins Limited (previously WS Atkins plc)	**100.0**	100.0	United Kingdom

JOINT VENTURES	2018 %	2017 %	COUNTRY
Capital investments			
407 East Development Group General Partnership	**50.0**	50.0	Canada
407 International Inc. [1]	**16.77**	16.77	Canada
Crosslinx Transit Solutions General Partnership	**25.0**	25.0	Canada
McGill Healthcare Infrastructure Group, G.P.	**–**	50.0	Canada
Rideau Transit Group General Partnership	**40.0**	40.0	Canada
Signature on the Saint-Laurent Group General Partnership	**50.0**	50.0	Canada
TC Dôme S.A.S. [2]	**51.0**	51.0	France
Other			
Canadian National Energy Alliance Ltd.	**50.0**	50.0	Canada
Comprehensive Decommissioning International, LLC	**40.0**	–	United States
SNC-Lavalin International Inc. and Zuhair Fayez Engineering Consultancies Company	**50.0**	50.0	Saudi Arabia

JOINT OPERATIONS	2018 %	2017 %	COUNTRY
407 East Construction General Partnership	**50.0**	50.0	Canada
Crosslinx Transit Solutions Constructors G.P.	**25.0**	25.0	Canada
NouvLR General Partnership	**24.0**	–	Canada
Signature on the Saint Lawrence Construction General Partnership	**45.0**	45.0	Canada
SLN-Aecon JV	**50.0**	50.0	Canada
SNC-Dragados-Pennecon G.P.	**40.0**	40.0	Canada
UGL Kentz Joint Venture	**50.0**	50.0	Australia

ASSOCIATES	2018 %	2017 %	COUNTRY
Capital investments			
Myah Tipaza S.p.A.	**25.5**	25.5	Algeria
Shariket Kahraba Hadjret En Nouss S.p.A.	**26.0**	26.0	Algeria
SNC-Lavalin Infrastructure Partners LP	**20.0**	20.0	Canada

(1) Although the Company holds less than 20% of the equity shares of 407 International Inc., the Company exercises joint control over this entity based on its contractual agreements.

(2) Although the Company's ownership interest in TC Dôme S.A.S. is more than 50%, the Company does not exercise control over this entity based on its contractual agreements.

40. DISPOSAL GROUP AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2017, the disposal group and non-current assets classified as held for sale included: i) a Capital investment accounted for by the equity method, namely MHIG, and its holding company (see Note 5A); and ii) other non-current assets, mainly project equipment, included in the Oil & Gas segment.

The major classes of assets and liabilities of the disposal group and assets held for sale as at December 31, 2017 were as follows:

AT DECEMBER 31, 2017	MHIG	OTHER NON-CURRENT ASSETS	TOTAL
Cash and cash equivalents	$ 39	$ –	$ 39
Other current assets	1,428	–	1,428
Capital investment accounted for by the equity method	106,321	–	106,321
Other non-current assets	–	206	206
Assets of disposal group classified as held for sale and assets held for sale	107,788	206	107,994
Current liabilities	1,182	–	1,182
Non-current liabilities	59,258	–	59,258
Liabilities of disposal group classified as held for sale	60,440	–	60,440
Net assets of disposal group classified as held for sale and assets held for sale	$ 47,348	$ 206	$ 47,554